Quarterly Portfolio Update

Pioneer Funds – Strategic Income
30 December 2011

Bond

Review

Improving economic data in the US, including estimated stronger-than-expected fourth quarter GDP growth fuelled by stronger-than-expected consumption, overcame ongoing concerns about the eurozone crisis. Risk markets rallied, particularly in the US, with the S&P 500 Index returning 11.82%.

Consumption, along with consumer confidence, improved in the fourth quarter, buoyed by stronger employment data: unemployment claims declined to 372,000, while non-farm payrolls rose 200,000 by year-end. Treasury yields fell slightly, with the 10-year Treasury yield declining from 1.93% to 1.87% and the 30-year Treasury yield declining from 2.92% to 2.89%. Agency Mortgaged-Backed Securities ("MBS") returned 0.88%, for 0.25% excess returns, which are defined as returns relative to like-duration Treasuries. Investment-Grade Corporates returned 1.93%, for a 0.82% excess return. Financials returned 1.22%, for a 0.29% excess return, while Industrials returned 2.28% (1.12% excess return), and Utilities returned 2.24% (0.95% excess return). High-Yield Corporates posted a strong 6.18% return or 5.40% on an excess return basis, as spreads narrowed from 841 bps to 723 bps. High-Yield Convertibles returned 4.64%. As the inflation outlook weakened, however, floating rate Bank Loans underperformed High-Yield Corporates, returning 3.08%. Non-Agency MBS/ABS ("Asset Backed Securities"), as represented by Floating Rate Non-Agency Asset-Backed Securities ABS, also faltered, returning -0.11%, as investor concerns rose over forced selling by European banks. Municipals posted positive returns, with the market returning 2.12%, for a -0.26% excess return; High-Yield Municipals returned 0.79%, for an excess return of -2.16%. Emerging-Market Corporates continued to underperform US High Yield, returning 3.73%.

The US dollar rallied strongly against eurozone currencies, rising 3.29% against the euro, but underperformed certain commodities-oriented currencies, such as the Canadian and Australian dollar.

Performance Analysis

For the quarter, Pioneer Funds - Strategic Income (Class A, Non-Distributing, USD units in USD) returned 2.20%, compared to 1.45% for its benchmark, the BarCap U.S. Universal Index. Year-to-date performance for the Portfolio was 1.53% compared to the benchmark return of 7.40%.

Asset allocation drove outperformance for the quarter, adding 151 bps. The 35% overweight to Corporates (including Convertibles) contributed 148 bps, primarily reflecting 123 bps added by the 20% overweight to Industrials. Lower-rated issues within Industrials accounted for 87 bps of the 123 bps, including approximately 60 bps from High-Yield Industrials. Financials, to which the Portfolio had a 12% overweight, and the 2% overweight to Utilities, each added 11 bps. The 23% underweight to Treasuries contributed 14 bps, while the 25% underweight to Agency MBS added 9 bps to performance. Finally, the 9% Non-US dollar currency exposure contributed 5 bps, reflecting the positive impact of the Australian and Canadian dollar positions.

Detractors from performance included Municipals, accounting for 6% of the Portfolio, which slightly underperformed Treasuries, reducing performance by 10 bps. Security selection hurt performance by 13 bps, primarily the 30 bps negative impact of American Airlines Municipal holdings. Interest rate sensitivity hurt performance by 24 bps, due to the negative impact of the approximate one-year short duration position of the Portfolio.

Outlook and Positioning

We believe that the US economy will experience modest growth of over 2% in 2012, consistent with slow, protracted recoveries from "balance sheet"-caused recessions. Consumption has exceeded expectations, reflecting improving employment, the benefit of the payroll tax cut, and declining gasoline prices that occurred earlier in the year. While Europe may enter (or already be in) recession, emerging-market growth may be nearing a bottom, and could improve in the latter part of the year, in response to the lagged effects of monetary easing among emerging-

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market countries that began last August. The greatest risk to our forecast is contagion effects from the European sovereign-debt and banking crisis. The European Union must affect a comprehensive solution - recapitalising the banks, ensuring funding for troubled sovereigns, achieving a workable fiscal and economic integration, and improving labour competitiveness in southern Europe - before the crisis can be defused.

We hold a significant overweight to Corporate Bonds, because we believe they offer the most attractive value among fixed income asset classes. Corporations, particularly in the US, have both attractive valuations and strong fundamentals. Revenue growth and tight cost controls may allow US companies to enjoy continued improvement in their earnings and balance sheets, as they have over the past few years. Moreover, the US Federal Reserve's commitment to continued low interest rates, coupled with modest economic growth, may continue to support risky assets such as Corporate Bonds, and particularly High-Yield Corporate Bonds. High-Yield spreads remain wide to long-term averages, while projected defaults remain well below long-term averages. Although the Convertibles market is shrinking as corporations opt to finance in the bond market at record-low yields, Convertibles offer value, given our preference for equities over fixed income.

Finally, we find Municipal Bonds attractive relative to Treasuries, particularly at the long end, where the ratio of Municipal yields to Treasury yields stands at very high levels. Many states and municipalities have made necessary cuts to balance their budgets, while at the same time, benefiting from higher tax revenues as the economy recovers. In international bond markets, we find Emerging-Market Corporate Bonds attractive: they underperformed relative to US High-Yield Corporates and more dramatically, relative to Emerging-Market Sovereigns in 2011. Emerging-Market Corporates offer opportunities to invest in the positive emerging market secular growth story, as well as in global players in their markets.

We remain underweight Developed Government Bonds, based on our view that they have poor fundamentals and unattractive valuations. Europe and the United States continue to suffer from high deficits, and high and growing debt-to-GDP ratios. Furthermore, Operation Twist, a programme of the US Federal Reserve to buy longer maturity Treasuries, has contributed to negative real yields across the Treasury yield curve. No Treasury security offers yields that exceed inflation, as measured by the Consumer Price Index. In the long run, we believe US Treasuries represent a risky investment, even though they are currently being supported by the Federal Reserve. Finally, we continue to maintain a cautious stance towards eurozone markets. The eurozone may enter (or already be in) recession and has not yet found a comprehensive solution to its sovereign and banking crisis. We will continue to be highly selective with respect to our European debt investments and, for the time being, will maintain a near-zero exposure to the euro.

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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.

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