

Monthly Portfolio Update

Pioneer Funds – Top European Players
30 December 2011

Equity

Review

Over the month of December, Pioneer Funds- Top European Players (EUR, A Class non-distributing) performed in-line with its benchmark, the MSCI Europe, producing a return of 2.13% versus a benchmark return of 2.10%. Over the final quarter of 2011, the Portfolio produced a return of 11.37% providing relative outperformance of 2.44%. For 2011- relative outperformance was 3.89%.

December began well in anticipation of a positive outcome from the Euro Summit on the 8/9 December. The summit did indeed deliver greater steps towards a resolution but not without some drama. Fearing that the new measures would threaten the City of London – David Cameron used the UK's veto to block the formation of a new EU treaty leaving the other 26 EU countries to work together on a new agreement.

So what did the other 26 countries agree to? Not the full fiscal union the market was seeking but an intergovernmental agreement where each member state independently maintains strict budget discipline which will limit structural deficits to 0.5% of GDP. This discipline will be enshrined in law giving the European Commission a greater role in overseeing national budgets.

The ECB, as widely expected, cut interest rates by 25bps and announced a number of non-standard measures to ease the funding pressures currently being experienced by European banks. This included the extension of the LTRO programme with €489bn in 3 year loans issued on 21 December and the decision to accept a wider range of collateral from banks. Despite the announcement by Italian Premier Mario Monti of an austerity package to cut the nation's debt, Italian 10 - year bond yields crept back up during December highlighting the stresses that remain in the system.

Outside of Europe, the newsflow was more encouraging in the US with continued signs that the unemployment rate was stabilising under 9% and Philly Fed manufacturing Index jumping to 10.3 from an expected level of 5.3.

Performance Analysis

From a country perspective, the Portfolio had positive contribution from Italy, Spain and Sweden with negative contribution from Germany, Switzerland and the United Kingdom. At sector level, best performers were Materials, Financials and Utilities with negative contribution from Consumer Staples, Healthcare and Energy.

Consumer Staples was the worst performing sector for the Portfolio primarily as a result of a profit warning by German Retailer Metro, which stated that sales and EBIT before special items will both be slightly lower in 2011 than 2010. This is despite the company stating a month earlier that full year sales should be up 5 - 10% depending on whether Christmas was "normal" or "good". It now appears that the start of the Christmas shopping season may have disappointed the retailer. We have spoken to management and are monitoring the position closely in the run-up to an expected statement from the company regarding Christmas trading on 17 January.

In Financials, the holdings in the insurance sub-sector – Prudential and Zurich Financial services continued to perform well. In addition, the Portfolio benefited from better performance from some of the banking exposure such as Spanish bank BBVA. This was offset somewhat by weaker performance from Deutsche Boerse with renewed focus on a potential financial transaction tax pushing the share price lower.

In Materials, a number of holdings proved rewarding during December including CRH and Vicat. CRH has benefited from better economic data appearing from the US which accounts for roughly half of its business. This, combined with a weaker euro, should prove beneficial to CRH. French cement company Vicat had been out of favour during the previous month due to concerns regarding the Egyptian political situation and the effect on the company's operations there. The fall in share price appeared over-done and the position benefited from a rebound in December.

The Portfolio continues to benefit from underweight positions in Telecommunications and Utilities. We believe these industries will struggle to grow earnings in the future.

In Telecommunication, the sector, in general, was under pressure during the month following the decision by Spanish company Telefonica to cut its dividend in December.

Despite the Portfolio's holdings in Energy producing good returns during the month, we had negative attribution from the sector due to the Portfolio's underweight position in the sector.

It was a similar story in Healthcare with the holdings in Novartis and Fresenius Medical Care both rewarding holdings in December. However, the Portfolio's underweight position in Pharmaceuticals detracted from performance.

Finally, in Industrials, holdings such as Assa Abloy and Rexam continue to perform well, while Fiat Industrial detracted from performance slightly.

There were no new additions to the Portfolio's holdings in December.

Top 10 Overweights	Portfolio Weight	Benchmark Weight	Delta
Novartis	5.80%	2.18%	3.62%
British American Tobacco	4.87%	1.54%	3.33%
Kerry Group	3.32%	0.08%	3.24%
Fresenius Medical Care	3.42%	0.23%	3.19%
Henkel	3.01%	0.17%	2.85%
Prudential	3.22%	0.41%	2.81%
Zurich Financial Services	3.31%	0.54%	2.78%
Technip	2.57%	0.15%	2.42%
Fiat Industrial	2.52%	0.11%	2.42%
Compass Group	2.70%	0.29%	2.40%

*Source: Pioneer Investments as at 30 December 2011

Outlook

Looking forward to 2012, we are facing a year of continued uncertainty as investors remain cautious of sovereign risk and the extent of any recession in Europe. While we remain of the view that the steep falls of H2 2011 have priced in a lot of this risk, investors are likely to remain wary of risk assets until they get greater clarity surrounding the steps that will be taken to solve the crisis and the extent of any recession is known. A key risk for the European market remains potential policy errors on the part of European policymakers. European leaders used traditional New Year addresses to signal a commitment to save the euro while warning of the challenges still to be overcome. Following 2 successive rate cuts from the ECB, expectations of another 25bps cut in the first quarter of 2012 have started to grow as has further expansion of the ECB balance sheet. We have seen the EUR/USD rate move significantly over the past number of months ending the year at 1.299. Continued US dollar strength would provide a welcome tailwind to European exporters.

Against this backdrop, we continue to favour companies which have the ability to outperform over the medium term through exposure to global growth and strong competitive positions.

Sector Allocation	Portfolio Weight	Benchmark Weight	Delta
Consumer Discretionary	17.04%	8.00%	9.04%
Consumer Staples	16.30%	14.42%	1.88%
Energy	10.63%	12.77%	-2.14%
Financials	17.71%	17.72%	-0.01%
Health Care	12.36%	12.19%	0.17%
Industrials	10.57%	10.46%	0.11%
Information Technology	0.00%	2.88%	-2.88%
Materials	13.16%	9.53%	3.63%
Telecommunication Services	0.00%	7.08%	-7.08%
Utilities	2.27%	4.94%	-2.66%

*Source: Pioneer Investments as at 30 December 2011

Portfolio Strategy

The strategy of Pioneer Funds – Top European Players is highly stock driven. We believe that business fundamentals drive a share price over time. A bottom-up, research-driven process can add significant value and help us achieve our objective: to buy quality companies where profitability is undervalued.

Ours is a high conviction approach, which we believe maximises the value of our investment process and we are continuously using our fundamental research capabilities to uncover the most attractive investment opportunities within our investible universe.

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