Monthly Portfolio Update

Pioneer Funds – Top European Players
26 February 2010

Equity

Review

Pioneer Funds – Top European Players outperformed versus its benchmark, the MSCI Europe Index, over the month of February. The Portfolio returned 0.45% over the period (Class A, non-distributing, EUR units) while the MSCI Europe Index fell by -0.18%.

At macroeconomic level, European stocks were volatile during February as sovereign risk fears weighed on the market.

Problems in Greece dominated news flow in Europe and especially in relation to the euro. EU leaders announced that they would be willing to help Greece but gave no details. However, the news was badly received and at a subsequent meeting, a harsher tone was evident, putting the pressure back on Greece to implement additional measures to reduce its budget deficit. There were further comments by various leaders and it looks likely that Greece will receive some help, but details are yet to be sorted. However, any assistance is likely to come with tough conditions concerning Greece doing more to cut its budget deficit.

At the same time that Greece has prompted an uptick in risk aversion, recovery prospects in Europe are also waning. Economic growth in the eurozone was a lower-than-expected 0.1% (q-o-q) in the fourth quarter of 2009, down from 0.4% in Q3. The figure for the full year was -4%. The French economy remained strong (0.6%), with Germany flat and Italy (-0.2%) and Spain (-0.1%) contracting. Indeed, Spain is the last major economy still in recession, which has so far lasted seven quarters. Towards the end of the month, the Ifo reading of German business sentiment also surprisingly fell for the first time since last March when it bottomed out when markets were at their lows. So far the reporting season for FY09 and Q4 results showed no big surprises on the upside as most of the profitability improvements were driven by cost cutting rather than top-line.

Performance Analysis

Over the month, stock selection was a key contributor, accounting for over 100 basis points of relative outperformance.

At sector level, we gained from our investments within Consumer Discretionary, Energy, Financials, Health Care, Information Technology, Telecommunication Services and Utilities. Conversely, our investments within Consumer Staples, Industrials and Materials held back some relative performance over the month.

The greatest contribution over the month came from successful stock selection within the Consumer Discretionary sector. Compass Group, a foodservice company, was a key contributor after issuing a positive interim management statement with organic growth declines less than expected. The company is seeing strong growth in new business in both foodservice and support services (pipeline remains strong), and retention rates remain high.

Eutelsat Communications, a France-based satellite operator, delivered another strong set of numbers during the month, with sales in line with expectations. We remain positive on the company's outlook with further confirmation of Eutelsat and fixed satellite business strength with the earnings upgrade cycle continuing.

Elsewhere, within Diversified Financials, Deutsche Boerse released FY09 numbers that was ahead of expectations. Management have committed to keeping the cost base this year at least flat YoY, if not lower.

Fresenius Medical Care (Health Care), a kidney dialysis services provider, released a solid set of Q4 2009 results over the month. The company generated steady organic growth, ahead of market expectations. The investment attractions of Fresenius Medical Care's defensive top-line growth coupled with underappreciated margin opportunity from bundled payments remain intact.

PIONEER Investments®

Our investments within the Materials sector proved rewarding as mining companies, such as Rio Tinto, rallied towards the end of the month. Air Liquide, a company involved in the production of industrial gases, contributed positively on the back of analysts' upgrades.

Finally, our holding in France-based Technip was a relative outperformer over the month. We remain positive on the outlook for the company as it is well positioned in the Onshore Engineering and Construction sector, and has capacity to add backlog.

On the negative side, our holdings within Industrials, particularly Capital Goods, were a source of underperformance. Italy-based Finmeccanica detracted and we sold out of our remaining nominal position in the company, after reducing the position in January due to a reduction in profit guidance.

Sector Allocation	Portfolio Weight	Benchmark Weight	Delta
Consumer Discretionary	13.00%	7.15%	5.85%
Industrials	14.05%	9.75%	4.30%
Materials	12.06%	9.24%	2.82%
Health Care	13.49%	10.76%	2.73%
Energy	11.20%	11.10%	0.10%
Consumer Staples	12.52%	12.47%	0.06%
Information Technology	2.03%	2.89%	-0.87%
Utilities	4.64%	6.21%	-1.56%
Financials	17.93%	23.44%	-5.51%
Telecommunication Services	0.00%	6.99%	-6.99%

Portfolio Strategy

As always with Pioneer Funds – Top European Players, our strategy is to be highly stock driven, seeking to invest in high-quality, undervalued companies with strong fundamentals.

In terms of key portfolio changes, we bought one new position in February. Prysmian is an Italy-based company active in the Cable sector. There are four main reasons to the investment case; (i) we believe that the fundamentals of the global cables industry have changed significantly for the better over the past decade with supply-side consolidation and greater price discipline, (ii) Prysmian itself offers a number of growth conduits over the medium term towards its higher-return businesses in power transmission, deep-water oil production, renewables and fibre-optic cable, (iii) the group has a strong management and appears disciplined with regards to allocation of capital and (iv) through-cycle valuation appears undemanding thus offering the potential of multiple expansion and upwards revisions to 2010e forecasts.

We also increased our weighting in Novartis, a position within the Pharmaceuticals Biotechnology and Life Sciences industry that we bought in January.

We added to our exposure in Credit Suisse to reduce the Swiss Franc currency underweight in the Portfolio. Credit Suisse is a leading Investment Bank and Private Bank. It is also one of the largest Swiss Retail banks, and has a large Asset Management business. The investment case for the last approximately three years has hinged on the belief that the management could successfully restructure and rebuild what essentially was a very good franchise operating in some high-return and high-growth areas of the financial services market. In particular, private banking is a very fragmented market with high-growth potential, while there are secular growth trends in the capital markets, such as disintermediation, and the growth of the Asian markets. We expected management to either follow the UBS 'One Bank' model and fully integrate, or break itself up. Under the single CEO the decision was taken to follow the former path and this has lead to significant synergies. The restructured group is highly cash generative, which should enable further investment in the institutional securities division, enabling it to narrow the returns gap with the peer group. In addition by concentrating on the core competencies and divesting of non core businesses, such as Winterthur, we believe that the cost of equity appropriate to Credit Suisse should narrow to its peer group. In the current financial crisis, Credit Suisse has so far performed better than most of its peer group and should therefore be able to take further advantage in any recovery.

In terms of positions sold, as discussed above we exited our remaining nominal position in Italy-based Finmeccanica.

We also reduced our holding in Banco Santander amid caution on Spanish financial names for the year.

Finally, we slightly reduced our position in supermarket retail operator Tesco in order to lower the pound sterling exposure within the Portfolio.

Top 10 Overweights	Portfolio Weight	Benchmark Weight	Delta
FRESENIUS MEDICAL CARE	3.92%	0.16%	3.76%
EUTELSAT COMMUNICATIONS	3.26%	0.05%	3.20%
BNP PARIBAS	3.89%	1.07%	2.82%
UNILEVER	3.60%	0.79%	2.81%
RIO TINTO	3.89%	1.11%	2.78%
NATIONAL GRID	3.14%	0.39%	2.75%
CREDIT SUISSE	3.37%	0.81%	2.56%
TECHNIP	2.60%	0.12%	2.48%
TNT	2.59%	0.15%	2.44%
BG GROUP	3.38%	0.94%	2.43%

Outlook

With regards to outlook, we will continue to seek out quality franchises with underappreciated prospects at reasonable valuations. In the short term, the market will be driven by macro events – sovereign risks and debt concerns – which will provide buying opportunities for high-quality companies. The biggest concern is the fading momentum of leading economic indicators as governments reduce their stimulus measures, which might weigh on the market in the short term. Some leading indicators have already peaked. The reporting season so far was mixed with some positive surprises but the expectations have been high and did not support the market further. We hope to be able to focus more on single company fundamentals than on the larger macro/market as in 2008-2009. A return to "stock picking" should favour our equity selection approach, which emphasises researching and meeting with companies, and determining their "intrinsic value" over a medium-term horizon using fundamental analysis. In a lower, potentially weaker, GDP environment, we expect those companies that can deliver genuine top-line growth to be afforded a market premium. We also see enhanced attraction in stocks that can offer secure and/or growing dividend streams in this environment.

Our focus, as always, remains on bottom-up stock selection and research-based portfolio management, while simultaneously monitoring risk within the Portfolio.

Important Information