

# Quarterly Portfolio Update

## Pioneer Funds – Top Global Players

### 30 June 2010

Equity

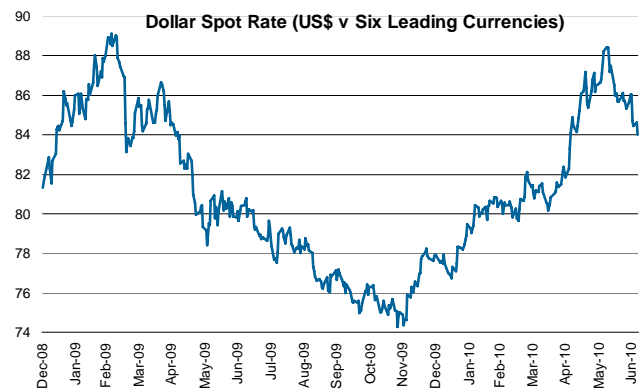
## Review

The Portfolio was down by 3.62% (Class A, non-distributing, EUR units) over the quarter, slightly behind its benchmark, the MSCI World Index, which returned -3.53%

Over the second quarter, markets were dominated by fear and risk aversion due to liquidity worries sparked by the sovereign-debt crisis in Europe and potential knock-on effects for growth. There were also worries over inflation in India and lower growth in China, and some mixed data from the US. This led to falling equity markets, rising spreads for emerging debt, lower yields for the safest sovereign assets such as German Bunds and US Treasuries, falling oil and other commodity prices (except gold), and a strong US dollar. Developed equity markets (-11.8% capital return in local-currency terms) underperformed emerging markets (-6.4%) during a volatile quarter. The S&P 500 Index was the same as the MSCI World Index (-11.8%), with the MSCI Europe Index slightly better (-11.2%). Japan underperformed, with the Topix Index losing 14%.

Commodities had a very weak quarter due to severe risk aversion, worries about the debt situation in Europe and Chinese demand for raw materials if fixed-asset investment falls. The S&P GSCI Total Return Index was down 10.4%, although industrial metals were much weaker (-18%). West Texas crude fell 9.7%, down to US\$75.6 per barrel. Unsurprisingly, gold was in demand, up 11.6%, ending the quarter just off its new all-time high of US\$1257 per ounce (18 June). Freight rates (Baltic Dry) were down 19.7%, although the Index lost 41% in June.

The US dollar was very strong against major developed currencies, gaining 6.1% despite falling slightly in June. The best-performing developed currency was the Japanese yen. The Australian dollar was weak due to the proposed new mining tax but the euro was even weaker, with the US dollar rallying over 10% against the single currency. The US dollar strengthened against most emerging currencies except the Peruvian new sol, Columbian peso, Indonesian rupiah and Chinese renminbi, where China introduced a new more flexible exchange-rate policy. The greenback was particularly strong against the Polish zloty (18.6%) and Hungarian forint (18.7%).



Source: Bloomberg, daily data, 31 December 2008 – 6 July 2010

## Performance Analysis

Out of the ten sectors in the benchmark, we outperformed in four. Our best relative returns came from Energy, Telecoms and Materials. The main areas of underperformance were IT, Health Care and Industrials.

Energy contributed 116 bps towards relative performance. Roughly a quarter of this was due to not owning BP, but our holdings in ConnocPhillips, Devon Energy, Chevron and Valero were all strong, particularly Conoco. Outperformance in Telecoms was due to our holding in China Mobile. In Materials, Newmont Mining was exceptionally strong, gaining 34% in euro terms compared to a sector that was down 7%. Newmont benefited due to its primary focus on gold, which was in demand and hit a new high over the quarter. The main drag in IT was due to what we did not own, such as IBM, but our holdings in Take-Two Interactive Software and Dell were also weak.

## Portfolio Strategy

We keep a diversified Portfolio, with investments in all ten sectors, as we look to add value more in stock selection. Consequently, our active sector positions are reasonably constrained. Our biggest overweights are IT (328 bps) and Telecoms (308 bps). The biggest underweight is Utilities (-327 bps), with smaller negative bets of between 130 bps and 147 bps on Financials, Consumer Staples, Materials and Industrials.

We made some changes to our sector positioning over the quarter, in particular taking a slightly bigger spread of active positions, with 300 bps+ positions on our two largest overweights (IT and Telecoms), which were the main increases over the quarter. Conversely, the biggest reductions were to Consumer Discretionary and Consumer Staples. The changes over the quarter reflected our less pessimistic, although certainly not bullish, stance.

One of our key themes for the year ahead is to focus on increasing the Portfolio's dividend yield. On average, dividend yield makes a substantial portion, around 50%, of overall returns from equities over the long term. Last year, dividends contributed a much smaller percentage (nearer 10%) of overall returns. This situation should revert more towards the mean, which means that dividend income should be more in demand, especially in a period of more subdued growth.

We were reasonably active in relation to changes over the quarter. New holdings included Apple, China Construction Bank, Take-Two Interactive Software and Bucyrus. We switched out of Agrium and bought a position in Mosaic; Sharp was a switch from Sony, and Marathon Oil was a switch from Royal Dutch Shell. Marathon is more focused and less diversified than Shell and is a well run company. Also in Energy, we bought positions in ENI, which had been a big laggard, and Paladin Energy, while selling out of Devon and ConnocoPhillips for valuation reasons. In Health Care, we reduced Pfizer and added Teva following a period of poor performance.

Bucyrus is an interesting company. Following its acquisition of the mining division of Terex, it has the most extensive portfolio of mining equipment. There are good synergies and cost-cutting opportunities from the acquisition, but it also gives exposure to the whole Mining sector without betting on particular commodities. The stock sold off a bit following the announcement of the Australian tax plans for the Mining sector, giving us a good entry point.

## Outlook

Over the quarter we moved from quite a big defensive bias to a more neutral stance. In the latter part of the quarter, this was influenced by the more attractive valuations on offer due to the sell-off. However, in general, we still have a cautious outlook and our next move is likely to add more defensive exposure. The problem that caused the financial crisis was excess leverage, which has yet to be cured. Liquidity and improving economic data caused the market

rebound last year but leverage and its knock-on effects (tax rises, reduced consumption, higher unemployment, higher savings etc.) will be a continuing headwind through 2010 and probably a key theme for several years. We are still more concerned with downside protection than chasing cyclicality. However, we also want to be able to participate if the market rally resumes, so we are exposed to a mixture of growth drivers.

We are firmly in a recovery mode, but it is business rather than consumer led, unlike most previous economic cycles. Consumers and governments in developed markets will be in a deleveraging mode for some time but business investments and profits are strong. Additionally, emerging markets are growing very strongly and consumption is likely to be a bigger part of their growth make-up going forward. This will help restore more balance in global trade, which is a good thing, but this will change over the medium and long term. The moves by China allowing more flexibility for the currency is a positive, and big wage rises and greater social security will help promote spending. However, there are still plenty of negative forces globally and data have been more mixed recently, which means that volatility will continue. We believe that a double-dip, while a possibility, is unlikely as, on balance, the positives seem to outweigh the negatives.

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