

Monthly Portfolio Update

Pioneer Funds – U.S. High Yield

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%. High-yield spreads widened 17 bps to 671 bps, and the market returned 0.09%. High quality outperformed: BBs returned 0.54%, single Bs returned -0.08% and CCC lost -0.20%. Equity markets recovered from their earlier sell-off, with high-yield convertibles posting 3.63% returns and the S&P 500 Index returned 3.10%.

Performance Analysis

Pioneer Funds – U.S. High Yield (Class A, non-distributing, USD units in USD) returned 0.0% compared to its benchmark, the Merrill Lynch High Yield Master II Index, return of 0.09%. Performance was helped primarily by the equity-linked allocations: the 14% common equity allocation contributed 30 bps to performance and the 20% allocation to convertible bonds and preferred raised performance by 19 bps. The fixed income portfolio underperformed, due to security selection, particularly within Basic Industry and Energy. Sector allocation helped performance, particularly the overweight to Capital Goods and underweights to Services and Utilities. Securities contributing to performance included the bonds of Lyondell (Millennium America); the common equity and convertibles of Freeport-McMoRan; the common equity of BE Aerospace and Scientific Games; and the convertibles of Roper Industries. Securities detracting from performance included the common equity of Georgia Gulf; NRG Energy and Polymet Mining; the convertibles of General Cable; and the bonds of Tesoro.

Outlook and Positioning

We 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. Given this potential upside, we are increasing exposure to convertibles and to common equities within the Portfolio, which we believe trade at attractive relative value.

We may see continued easy monetary policy over the next year, in light of high levels of unemployment. The Federal Reserve's injection of money into the system presents inflation risk over the medium term.

We continue to believe that the high-yield market is attractive. At approximately 671 bps, US high-yield bond spreads remain wide compared to the long-term average of approximately 560 bps. The improving economy and the open new issue market for high-yield bonds have reduced the default risk significantly.

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