

Quarterly Portfolio Update

Pioneer Funds – U.S. High Yield

30 December 2011

Bond

Review

Improving economic data in the US, including estimated 3+% 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%. US High Yield returned 6.18% during the quarter, as spreads narrowed from 841 bps to 723 bps. Lower quality outperformed with CCCs returning 8.07%, Bs at 6.30% and BBs up 5.54%. Convertible bonds, another focus for the Portfolio, finished in positive territory but below high yield with the Bank of America Merrill Lynch Speculative Grade U.S. Convertibles Index gaining 4.64%.

Performance Analysis

For the fourth quarter, Pioneer Funds - U.S. High Yield (Class A, non-distributing, USD units in USD) returned 5.51% compared to the 6.18% return of its benchmark, the BofA Merrill Lynch High Yield Master II Index. For December, the returns were 2.74% and 2.48%, respectively, and for the calendar year returns were 0.43% and 4.38%.

At month-end, the Portfolio had 22.8% in convertibles (0.9% of which was convertible preferreds), and 62.3% in corporate high yield. The convertible bond segment contributed 91 bps to returns, as security selection surpassed index returns. Exposure to Consumer Non-Cyclicals, Capital Goods and Technology were beneficial to performance. Conversely, defensive positions underperformed, with Healthcare and Energy hurting returns. Regarding the Portfolio's allocation to fixed income, positive security selection in the auto industry as well as the Consumer Non-Cyclical sector proved very helpful; however, security selection in Real Estate and Services detracted. An underweight to Banking and Financial Services helped as these areas lagged the overall index. Municipal bonds subtracted 76 basis points from

returns, as the Portfolio's allocation to municipal airport bonds was a detractor. The portfolio managers use these sectors to help augment performance and provide additional sources of diversification and alpha. Finally, the equity exposure added 26 bps to returns.

Notable investments boosting performance included the convertible bonds of Wesco International, an electrical product distributor that reported a 60% jump in net income; the convertible bonds of industrial manufacturer Roper Industries due to rising profits and an increase in guidance; and the common stock of diversified chemicals producer LyondellBasell after the firm announced a debt buyback and special dividend. Securities subtracting from performance included the convertible bonds of Vertex Pharmaceuticals on increased competition concerns for their hepatitis C drug; the corporate bonds of Lantheus Medical Imaging after the firm lowered guidance; and municipal bonds backed by American Airlines after the company announced it was going into bankruptcy.

While there has been increased volatility in the markets with concerns over global growth and sovereign-debt issues, we believe that the economic recovery should continue into 2012 and thus will benefit commodities, capital goods and basic materials companies. We have positioned our Portfolio accordingly. The Portfolio takes a value approach in that we aim to be paid for the risks we are taking. The Portfolio is US centric, which allows us to stay clear of many of the debt problems overseas. In addition, our exposure to the Banking and Financial Services sectors was just over 2% at the end of the year versus 10% for the index, so we are underweight the sectors with much of the headline risk and direct exposure to Europe. The Portfolio does take a total return approach so it will own convertible bonds, and if risk-related assets (as well as high yield) sell off, the Portfolio will typically be under pressure too. In general, it is our intent to keep the Portfolio fully invested, thus we do not typically run a high cash position. We believe our investors invest in the Portfolio to obtain exposure to the high-yield market. If the Portfolio ran a high cash position, it could alter the overall asset allocation strategy for the investor.

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 second half of the year, in response to the lagged effects of monetary easing among emerging-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, and achieving a workable fiscal and economic integration - before the crisis can be defused.

We continue to deem US high yield and convertible bonds attractive. 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, should continue to support risky assets such as 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.

Our ability to invest in the most attractive area of the corporate capital structure gives us the potential for superior returns with limited volatility by taking advantage of market inefficiencies that may not be available to portfolios with more limited mandates.

Important Information

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