Monthly Portfolio Update

Pioneer Funds – U.S. Mid Cap Value
26 February 2010

Review

US manufacturers saw more signs of recovery as factory production rose a solid 1% in January, according to the Federal Reserve's report released in February. It was the seventh consecutive monthly increase. After declining -3.6% in January, the S&P 500 Index returned 3.1% in February as continuing news of a gradually improving economy and solid fourth quarter earnings reports outweighed continuing concerns about sovereign credit risk in Europe and China's moves to reduce stimulus in its economy.

Mid caps strongly outperformed large caps in February, as they did in January, in the Russell size ranges, and for both months mid-cap value outperformed mid-cap growth. The Russell Mid Cap Value Index returned 5.0% in February, in which sector returns were led by Materials (+9.4%), Consumer Discretionary (+7.8%), and Industrials (+7.1%), while Utilities (-0.24%), Healthcare (+2.9%) and Financials (+4.0%) lagged.

Performance Analysis

Pioneer Funds – U.S. Mid Cap Value (Class A, non-distributing, USD units in USD) returned 2.4% in February, compared to 5.0% for its benchmark, the Russell Mid Cap Value Index. Stock selection was the principal driver of underperformance, while asset allocation was a modest positive.

While benchmark-relative returns benefited the most from stock selection in Financials in January, that picture reversed in February as it became the Portfolio's biggest detractor. Our lower exposure to real estate together with our higher exposure to capital-market companies, such as Lazard and insurer Assured Guaranty, hurt in February.

In the Information Technology sector, Western Union, an off-benchmark holding, detracted. Known around the world for its money delivery service, the company had good results relative to expectations, but its 2010 guidance disappointed investors.

In Utilities, our selection was detractive, but was evenly offset by our lower allocation to the sector, which was February's weakest performer. We remain underweight the sector due to our concerns regarding potential regulation.

Portfolio performance outperformed the benchmark in the Materials sector, helped by chemical company Airgas, copper and gold miner Freeport-McMoRan, and chemical company FMC.

Portfolio Strategy

In trading for the month, four new securities were added and three were sold. The following holdings were sold from the Portfolio: lumber products company Weyerhaeuser, which reached our price objective; oil and gas drilling services company Smith International, which agreed to be acquired by Slumberger; and diversified energy company First Energy, which we sold due to concerns regarding the pending acquisiton of Allegheny Energy.

Outlook

Our outlook is guardedly optimistic. Many factors suggest that the outlook for the economy is positive: a steeply-sloped yield curve; low interest rates and an accommodative Federal Reserve; companies reporting signs of stabilisation in the economy; significant improvements in GDP from a year ago; and strong balance sheets. In addition, stocks look attractively valued relative to bonds, based on yields, and there is plenty of cash on the sidelines.

Of course, there are many offsetting concerns: high unemployment; tepid consumer spending; an indebted consumer; a sharply growing (and already high) Federal debt load; the prospect of higher taxes; a seemingly dysfunctional government; and, perhaps most concerning, high earnings expectations from Wall Street. However, on balance, the positives above hold a slight edge, in our view.

Reflecting our guardedly optimistic view of the market, we have become less defensive over the last few months, with larger sector weightings in more cyclical areas, such as Industrials, Consumer Discretionary and Materials. However, due to our discipline of focusing on higher-quality businesses selling at distressed valuations, we are still probably slightly more defensive than the market. This suits us fine, given that markets can (and often do) move with little warning. We expect that our holdings, over time, have the potential to generate more-than-acceptable returns.

In our view, the sharp sector rotation that commenced in March of 2009 favouring riskier, lower-quality companies appears to have run its course. As our style favours higher-quality enterprises, we look forward to more of a stock-pickers market.

As always, we remain disciplined in our approach, emphasising quality businesses at attractive valuations with favourable risk/reward ratios.

Important Information