

# Quarterly Portfolio Update

*Pioneer Funds – U.S. Research*

*30 December 2011*

Equity

## Review

Fears of a US recession declined further in December and European Central Bank (ECB) easing reduced the perceived risk of an imminent eurozone debt crisis. First-half weakness and second-half strength resulted in the S&P 500 returning 1% for the month. Defensive sectors were favoured in December: the index's relatively defensive Telecom Services (up 4%) and Utilities (+3%) sectors led the market, while the more cyclically-exposed Materials (down 2%) and Energy (-1%) sectors lagged.

## Performance Analysis

In the fourth quarter of 2011 the total return of Pioneer Funds – U.S. Research (Class A, non-distributing, USD units in USD) was 11.4% compared to the benchmark S&P 500 Index return of 11.82%. Our stock picks in the Household & Personal Products and the Pharmaceuticals & Biotechnology groups outperformed their benchmarks in the quarter, while our stock picks in Retailing underperformed their benchmarks.

In Household & Personal Products, our position in Estee Lauder Companies performed well, rising 29% for the quarter versus a sector that was up 6%. An excellent set of results for the September quarter and a positive outlook was well received by the market. Estee Lauder's "affordable luxury" products continue to perform well despite considerable economic uncertainty.

In Pharmaceuticals & Biotech, our position in Pharmasset Inc. rose over 55% in the quarter based on a take over bid by Gilead Sciences, Inc. The significant premium paid is testament to the potential of Pharmasset's novel treatments for hepatitis and human immunodeficiency virus (HIV).

In Retailing our position in Amazon.com Inc. underperformed its sector, declining 20% for the quarter versus a sector down 5%. Amazon continues to grow much faster than the overall Retail sector. Significant investments in the business are holding back profits for now, causing anxiety among investors. These investments are likely to improve Amazon's competitive position and should lay the foundation for a more profitable future. We will continue

to assess the progress of these initiatives and their impact on Amazon's valuation.

## Portfolio Strategy

In the month of December we made a number of changes to the Portfolio. New positions included Walt Disney, Fomento Economico Mexicano (FEMSA), SunTrust Banks, and Teva Pharmaceuticals. Media conglomerate Disney has become an attractive investment case based upon a historically low valuation, while the strength of their largest driver of profits, the ESPN sports network, continues to operate at a high level. There is also increasing evidence of a significant improvement in return of capital to shareholders as evidenced by a strong rise in dividends and share buy-backs. FEMSA, through its stake in Mexico's largest bottler and distributor of branded beverages as well through its wholly owned OXXO retail platform, offers excellent growth opportunities in Mexico and several vibrant economies in Latin America. SunTrust Banks, Inc., a super-regional bank holding company in the southeastern US, is poised to perform well based on an improving banking environment, a repaired balance sheet, and the ability to substantially increase dividends now that all TARP money has been repaid. Pharmaceutical leader Teva has become an attractive investment case based on a low valuation, a reduction in the risk of generic competition to its Copaxone franchise, and opportunities for the company to benefit from, via its own generic activities, the "patent cliff" at other major drug companies.

Positions exited during the quarter included Coca-Cola, Pharmasset, and Staples. Coca Cola was sold as we believe the current valuation is fair and we believe there is a more attractive opportunity in our new position in FEMSA. Pharmaceutical company Pharmasset was sold because the upside to the share price is limited due to the pending buyout of the firm, at an 80% premium, by Gilead that was announced in November 2011. Office supply superstore Staples was sold as the company continues to face adverse secular and economic trends. While Staples' on-line efforts have been successful, they are not enough to offset the continued deterioration in the value of their bricks and mortar business. Also, cutting back on office supplies has proven to be pervasive as households, government agencies, and enterprises look to pare costs.

## Outlook

We remain optimistic about the prospects for US equities although macro issues such as the US fiscal debate, the sovereign-debt crisis in Europe, and slowing growth in China, may remain headwinds for the equity market in the near term. Our optimism on the longer-term outlook for equities is supported by attractive equity valuations relative to other asset classes and our assumption that the US economy will continue to grow. In addition, corporate balance sheets and cash flow are strong which may lead to increased M&A activity, share repurchases and dividend increases.

We will continue to focus our efforts on stock picking, our key competitive advantage, and primary performance driver. Our approach to stock picking emphasises bottom-up, fundamental analysis. We believe our approach is durable and repeatable and has the potential to deliver reasonable investment results across the business cycle and in a variety of market conditions.

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The Sub-Fund is actively managed, and current holdings may be different. References to individual stocks should not be taken as an investment recommendation to buy or sell any particular stock.

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Date of First Use 16 January 2012.