INVESTMENTS

Quarterly Portfolio Update

Pioneer Investments' Euro Curve Funds Range
30 December 2011

Bond

Macro Review

European bonds end the year on a high

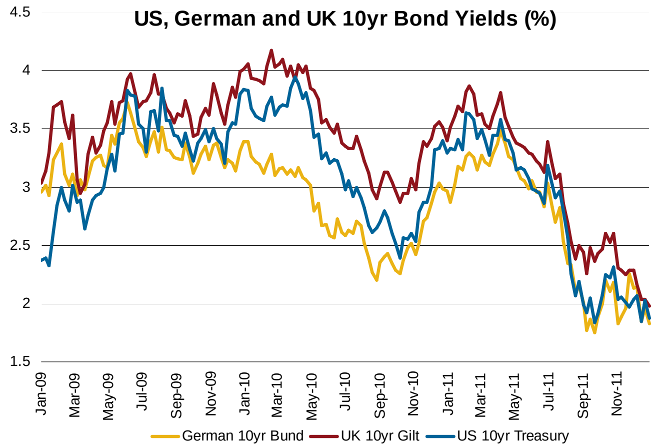
The main developments in the markets occurred early in the month as the EU Summit on the 8th and 9th of December led to eurozone nations agreeing to further integration. Around the same time, the ECB announced it was cutting its main interest rate to 1% and extending a 3 year LTRO to banks. European fixed income markets reacted overwhelmingly positive to all these news items and thus created a positive environment for our risk-on position.

Yields Hit Euro-era Records in Italy, Spain and Portugal

Yields on government debt from the GIIPS countries spiked to record levels in the fourth quarter. Italian generic 10-year yields spiked from 5.5% at the start of the quarter to a high of 7.24% on 25 November; they subsequently fell back below 5.9% in early December on ECB buying but ended the year at 7.03%. Portuguese bond yields increased by 243 bps during the quarter (10.93% to 13.36%), hitting a high of 14% at the end of November. Spanish yields actually fell slightly during the period (5.13% to 5.09%) but also hit a record of 6.7% on 25 November, although the government had to pay 6.98% on a new auction of 10-year paper.

US, German and UK Government Bond Yields Fall

Yields on US and German yields fell slightly (4-6 bps) over the period due to their safe-haven status, although UK Gilts rallied more sharply, with yields falling by 45 bps to end the year at 1.98%, only slightly above Germany and the US. However, there was a brief divergence between Bunds and Treasuries in late November, with Bunds moving more in line with riskier paper as a German auction of 10-year paper was short of bids, with the weakest demand since 1998.



Source: Bloomberg, weekly data, 2 January 2009 – 30 December 2011

CDS Insurance Costs Hit Highs

Most countries such as Italy, Spain, Turkey, Russia, France, Germany and the UK saw CDS costs reach new highs in this cycle. Ireland and Portugal are still down from the mid-July peaks. Over the quarter, insurance costs fell in Portugal, Germany, Turkey and, particularly, Russia, which has seen strong macro data in recent months. France saw the biggest increase in CDS costs.

CDS Prices (bps)

	End Sep	Q4 Peak	End Dec
Italy	470	570	503
Spain	382	491	393
Portugal	1110	1123	1092
Ireland	700	781	726
Turkey	294	321	287
Russia	309	338	275
Germany	112	119	103
France	187	250	222
UK	94	105	98

Source: Bloomberg

Performance Analysis

Pioneer S.F. – Euro Curve 1-3year

Pioneer S.F. – Euro Curve 1-3year (Class A, non-distributing, EUR units) outperformed its benchmark, the JP Morgan EMU Bond Index 1-3yrs, by 0.30% over the month, returning 2.06% in absolute terms. Over the year, the Portfolio outperformed its benchmark by 0.98% returning 1.51% in absolute terms.

Pioneer S.F. – Euro Curve 3-5year

Pioneer S.F. – Euro Curve 3-5year (Class A, non-distributing, EUR units) outperformed its benchmark, the JP Morgan EMU Bond Index 3-5yrs, by 0.39% over the month, returning 3.38% in absolute terms. Over the year, the Portfolio outperformed its benchmark by 1.84%, returning 3.31% in absolute terms.

Pioneer S.F. – Euro Curve 7-10year

Pioneer S.F. – Euro Curve 7-10year (Class A, non-distributing, EUR units) outperformed its benchmark, the JP Morgan EMU Bond Index 7-10yrs, by 0.13% over the month, returning 4.47% in absolute terms. Over the year, the Portfolio outperformed its benchmark by 0.15%, returning 2.69% in absolute terms.

Our Euro Curve Funds range pursues a "benchmark plus value" approach, which is managed within the context of a strict risk-budgeting process. The structure of each Portfolio is based on three layers:

- Core Portfolio Strategy: this core strategy is designed to replicate the performance of the benchmark. Often referred to as the 'beta' portion, this gives exposure to the maturity buckets of the yield curve selected. Ideally, the risk (as measured by Tracking Error Volatility) associated with this strategy is zero.
- Liquidity Strategy: each of the funds aims to allow the investor to invest and redeem their assets each day with the minimum possible impact on the funds. A portion of the funds' risk budget is allocated to the management of this strategy.
- Alpha Strategy: the alpha strategy offers an overlay of directional strategies on all the funds. This overlay aims to deliver superior returns per unit of risk through duration, relative value, currency and other models.

Over the quarter, the contribution of the core Portfolio to performance varied across the Portfolios. The core strategy was a negative contributor to Pioneer S.F. – Euro Curve 1-3year, detracting ten basis points from performance. Pioneer S.F. – Euro Curve 3-5year was flat and Pioneer S.F. – Euro Curve 7-10year lost six basis points from the core strategy.

The sovereign liquidity strategy was the strongest performance contributor across to Pioneer S.F. – Euro Curve 1-3year and Pioneer S.F. – Euro Curve 3-5 year. It contributed over thirty basis points to both Portfolios. It was a negative performance contributor to Pioneer S.F. – Euro Curve 7-10year, which lost 14 basis points on the sovereign peripheral strategy. The key purpose of the strategy is to achieve a relatively risk-neutral sovereign risk exposure through investing in more liquid nations. This is particularly the case for peripheral nations where we overweight more liquid countries, such as Italy and Spain, at the expense of less liquid countries, such as Ireland and Portugal. We are currently overweight Italy and Spain to varying degrees across all of the Euro Curve Funds and are underweight Ireland and Portugal.

In the alpha strategy, very few of our alpha strategies were significantly positive or negative. Gains were made through the 10 year AUD curve model and small losses were recorded through our itrend duration model.

Outlook

In the second half of 2011, the eurozone bond market experienced something akin to a slow bank run. In order to bring this to a halt we need either a lender of last resort (the ECB) or a fiscal lender of last resort (Germany) to restore markets' faith in the eurozone.

The recent EU Summit took us another step closer to fiscal federalism and tighter controls on the national budgets of eurozone nations. The ECB is acting as a lender of last resort through its Securities Markets Programme (SMP) and this has helped bring in yields on Italian and Spanish bonds. In the medium run, we feel a treaty that entrenches fiscal federalism and tighter control of national budgets is imperative. Rather than going through the arduous process of amending existing legislation, we think a new treaty to be ratified by the 17 eurozone nations is the neatest solution.

In the present environment however, you are paid well to take a risk-on position.

Important Information

Unless otherwise stated all information contained in this document is from Pioneer Investments and is as at 30 December 2011.

Pioneer S.F. – Euro Curve 1-3year, Pioneer S.F. – Euro Curve 3-5year and Pioneer S.F. – Euro Curve 7-10year are sub-funds (the "Sub-Funds") of Pioneer S.F. (the "Fund"), a fonds commun de placement with several separate sub-funds established under the laws of the Grand Duchy of Luxembourg.
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