

Quarterly Portfolio Update

Pioneer S.F. – Euro Inflation Linked
31 March 2009



Fixed Income

The first quarter of 2009 has been characterised by continued volatility in global financial markets. Concerns about the outlook for global growth, the freezing of credit markets and the solvency of financial institutions continue to have a large impact on the fortunes of investors in government bonds. It has been an historic period, as some central banks have cut interest rates close to zero and have started “alternative measures” such as quantitative easing. Large fiscal packages announced by various governments have had an impact in government bond markets due to the large increase in supply of government bonds to finance the stimulus packages.

Spreads between the yields on sovereign debt of other countries in the European Economic and Monetary Union (EMU) and German sovereign debt widened significantly to reach their highest levels since the introduction of the EMU, in many cases. The widening reflects increasing investor concern about the impact of the global economic slowdown and government debt guarantees on the budget deficits and levels of public debt in euro area countries. Citing these issues, the rating agency Standard & Poor’s downgraded the sovereign credit ratings of Greece, Spain, Portugal and Ireland during the quarter.

Pioneer S.F. – Euro Inflation Linked (class A, EUR, non-distributing units) underperformed its benchmark, the Merrill Lynch Euro Government Inflation Linked Index, during the quarter. The main detractor from performance was a short US Treasury position. The main contributor to the performance was a US-Europe inflation spread position, where the Portfolio was long 10-year US inflation versus 10-year European inflation. In line with our fundamental view, the Portfolio took advantage of mispriced inflation expectations. The Portfolio also had positive contributions from other relative value positions. The Portfolio is currently short interest rate duration versus the benchmark and has an average rating of AA+.

We believe that the large rally that has occurred in government bond prices due to investors seeking less risky assets is over and forecast an increase in yields. Any further disruptions to financial markets will see demand for safe-

haven assets increase. Where a central bank has undertaken steps to stimulate an economy by using quantitative easing, the resulting very low yields are unlikely to be a permanent feature once the quantitative easing programme concludes. In the medium term, we believe that central banks and governments will be successful in their efforts to stimulate demand and some economic lead indicators suggest that this is already occurring. The subsequent recovery in world growth is likely to be quite gradual, consistent with the typical profile in the aftermath of financial crises.

Unless otherwise stated all information contained in this document is from Pioneer Investments and is as at 31 March 2009.

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