

# Quarterly Portfolio Update

Pioneer S.F. – Global Curve 1-3year  
31 March 2010

Bond

## Review

Throughout the first quarter of 2010 European credit markets were dominated by sovereign risk considerations. Greece, in particular, was in the spotlight as concerns over its ability to meet obligations to bondholders dominated financial markets. To a lesser extent, Spanish, Portuguese and Italian sovereign and corporate spreads were also adversely impacted by doubts over their ability to meet obligations. The overall impact on government bonds in the eurozone market was an increase in volatility.

It is worth highlighting that we have witnessed a number of positive developments in recent weeks in order to reduce the risk of a sovereign default in the eurozone. Some of these were self-help measures; for example, Portugal unveiled austerity measures similar to the ones seen in Greece in December 2009, and in March eurozone leaders and the IMF agreed a €25 billion support package for Greece that significantly reduced the risk of Greece defaulting on its debt. At a broader level, the unveiling of these austerity packages led to a downward revision in economic growth expectations for the eurozone as concerns over fiscal tightening and reduced government investment in, for example, utility companies took hold. These factors pushed corporate spreads wider in February and March, and the gains made in the European credit markets in January were effectively wiped out.

Nervousness over the creditworthiness of peripheral countries had a knock-on effect upon corporate bond markets. Understandably, investors also grew more concerned about many of the corporations operating within these peripheral countries. This led to significant widening of spreads at times in sectors such as Greek Banks, Spanish Banks and Spanish Utilities.

## Performance Analysis

Pioneer S.F. – Global Curve 1-3year (Class A, non-distributing, EUR units) marginally underperformed its benchmark, the JP Morgan Global Bond Index 1-3yrs, by -0.43% over the first quarter of 2010, returning 4.38% in absolute terms.

Our curve funds seek to track the benchmark through a core portfolio and then employ a selection of portable alpha strategies to add value to the portfolio. The Investment team allocates these alpha strategies within the context of a strict risk budget.

With the continuing uncertainty over interest rates and the fates of the peripheral eurozone nations, our models are still waiting to pick up signals of clearly identifiable trends that can then be exploited through our alpha strategies.

Consequently, the risk budget was spent sparingly over this quarter. Modest gains were made through our technical breakout model on the relative EUR/USD rate where our long US dollar position paid off.

The primary performance detractor came from our core portfolio, as the reduced liquidity in the market and the widening of the bid-offer spread had a negative impact on our ability to track the Index in a cost-effective manner.

## Outlook

Recent survey results show that credit conditions remain tight. The deleveraging process, which started last year, is now well underway in almost every sector. However, due to the expected weaker economic recovery in the eurozone, the deleveraging process will prove harder for companies with high levels of debt and a significant exposure to cyclical sectors.

We expect to take a more aggressive stance with the Portfolio once the situation in Greece is resolved and clearer market trends become apparent in the eurozone.

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