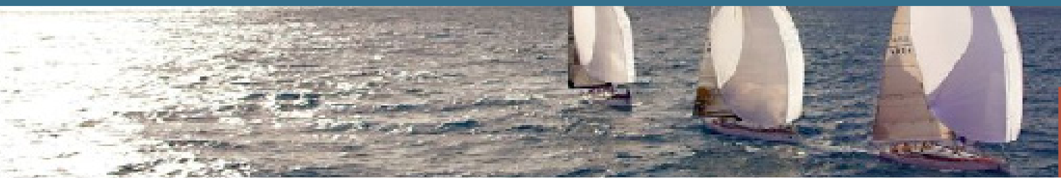
Pioneer Funds – European Equity Opportunities

Web Conference Call Transcript, 23 May 2007



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Investment philosophy

Pioneer Investments recently hosted a web conference with PJ Davies, Lead Portfolio Manager of Pioneer Funds - European Equity Opportunities. During this call PJ discussed the funds:

- Investment philosophy and approach
- Year-to-date performance

He also discusses the market conditions in Europe, highlighting why he believes he can continue to find attractive investment opportunities in 2007. To follow please find the transcript from this call.

Key characteristics

Pioneer Funds – European Equity Opportunities is an unconstrained portfolio. When it comes to valuation, the focus is on absolute valuation, rather than relative. The positions in the fund and the portfolio construction are driven by conviction. Therefore, the fund will hold very high positions relative to the benchmark, in those stocks where we are particularly convinced by the investment case. The fund 's primarily focus is on bottom-up stock picking. There is very little top-down input into this fund. I have the support of about 20 Analysts based in Dublin. And I would like to remind you that I was part of that team for five years. Therefore I am very familiar with the importance of bottom-up research. Portfolio construction is not driven by the benchmark, the idea is to pick the best investment ideas, without worrying too much about how far that takes me from the benchmark.

Business fundamentals drive share prices

The following graph illustrates what I believe drives share prices. The blue line gently drifting upwards is the intrinsic value of a company. I do believe that companies have an intrinsic value. Here, all things being equal, this is something that ought to rise gently over time, as the company continues making profit and creating shareholder value. There will of course be periods or events that can change this, but in general I believe it is something that is not hugely volatile.

The black line represents the value of a company in the stockmarket, which tends to be far more volatile over time than the intrinsic value. This, I believe, is what prevents opportunities for investment. So the idea is to buy stocks when they are significantly below their intrinsic value and to sell them when their intrinsic value has been realised.

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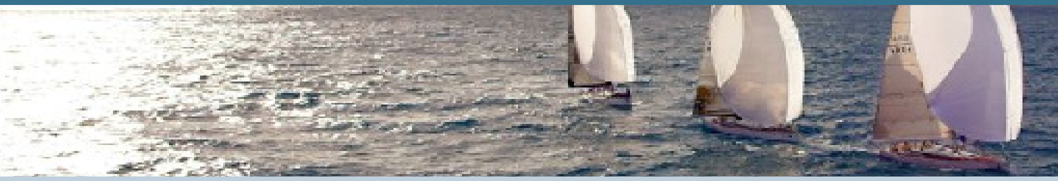

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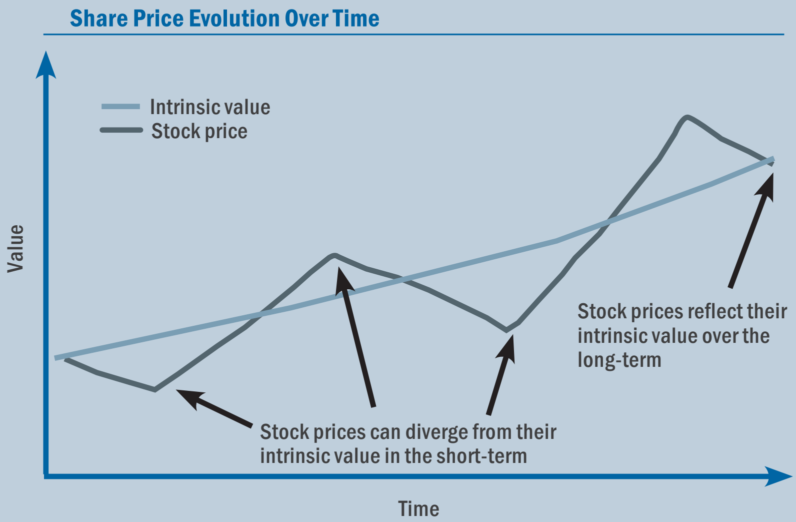

Growth expectations

When it comes to valuation, I believe that two dynamics are responsible for the value of a company. One is growth expectations. This is generally an industry issue and this is why we take research so seriously at Pioneer Investments. As our Analysts are industry experts, they are well positioned to understand the growth dynamics of an industry. We also look at the return on invested capital which a company can generate; how long can they generate a return significantly above their cost of capital. This makes a huge difference to what the company is actually worth. Again, our Analysts are best positioned to understand this. Additionally, the return on investor capital tends to be less of an industry issue and more of a company issue; how well a company is positioned within its competitive set and how long it can maintain that competitive edge.

Areas of interest for unconstrained stock selection

Strong competitive position and growth potential

I typically like to invest in companies with a strong competitive position and good growth potential. The ideal company, from my point of view, is one that has a strong market share, dominates a market niche with growth potential within that niche and can reinvest in its core business, because this reinvestment provides a compounding of growth and returns. So, clearly, not all companies in this category make good investment opportunities if their potential has already been recognised by the market. However, many exist where their potential has not been properly appreciated by the market.

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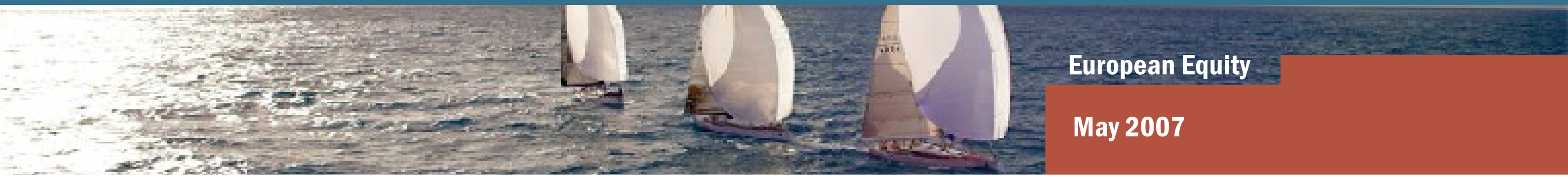

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Restructuring/recovery

The second broad group of stocks are companies that were restructuring, which are recovering or where I would say there has been a shift in industry dynamics. In Europe, there has been a lot of rethinking about what companies ought to be doing and how they should be thinking about their shareholders. There are many such companies around at the moment.

Inexpensive and misunderstood

The third category, a smaller category, is what I call the inexpensive and misunderstood. Here the market has misunderstood the long-term strategy of the company, and is focusing too much on short-term issues. This short-sightedness has resulted in the market overlooking the intrinsic value of the company. Of course you have to be careful not to buy companies that look cheap but deserve to be as they do not have the competitive position they need.

Performance update

Year-to-date, the fund is up just over 2%,[1] but the benchmark is up nearly 5.8%, representing significant underperformance. In the next section of the presentation I am going to analyse what has driven this underperformance and what, if anything, I am doing about it. First I am going to look at three stocks that are responsible for the majority of the underperformance. Between them these three stocks have reduced the performance by just over 2% of the underperformance to date. These three stocks are TomTom; Soitec and UCB. In the following section I am going to look at the investment case for each and then focus on the action I have taken.

[1] Source: Pioneer Investments and MSCI. Performance as at 30 April 07 for A class non - distributing units in euro.

Personal navigation represent a long-term growth trend

TomTom is my favourite stock in the portfolio. It is the largest position and the overweight. It accounts for over 7% of the fund. When the position did dip below 7% this was due to fund flows or performance. Here I tended to top up the position to bring it back over 7%. TomTom have a 50% share of the satellite navigation market in Europe. This is primarily a European market; but its growing in America. The number two company, which is Garmin in Europe, has a 12% market share. So as you can see, TomTom is almost four times the size of its nearest competitor.

TomTom is growing very fast in Europe and the market is a growth market – we only have 15% penetration in Europe and that's growing fast. In America penetration is at 5% and it is beginning to accelerate. Therefore, I think the American market is

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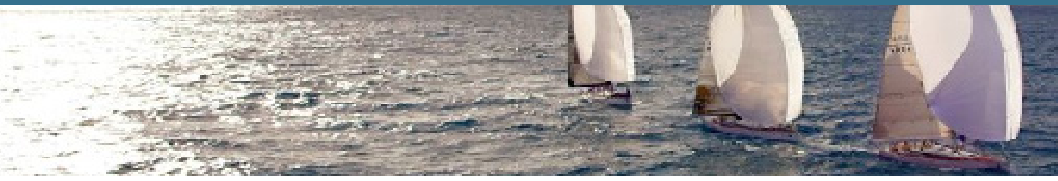
becoming increasingly tight and TomTom's market share in America is about 25% and Garmin has 50%. TomTom is gaining market share in America and it is in a decent number two position. There is no doubt in my mind that TomTom has the best product, particularly when it comes to the next generation of products. Additionally, it also has the lowest costs, partially because it is the biggest.

You know, this is the case where the biggest has the lowest costs, therefore it can make the most profits and therefore it can reinvest the most back into its core business. And just as an indication of how much more profitable TomTom is than its competitors, the number three and number four in this business are not major, simply because they are losing money. On the other hand, TomTom is making a 40% gross margin. They have the highest research and development expenditure in the business, which means that they are investing in the next generation of products and these products will be coming out in the second half of this year, and I believe that the market in general is unaware of just how powerful these new products are going to be.
So that, fundamentally, is the TomTom investment case. Next I will discuss what I am actually doing and what I have done in terms of following that one.

Unique silicon wafer technology presents significant growth opportunity
The second major detractor from performance is Soitec. It is a much smaller position, but it is a much more volatile stock. TomTom has barely moved this year in a market that is up 7-8%. On the other hand Soitec is actually down 30-35% year-to-date. Soitec is a small French company that has a unique technology for enabling chip manufacturers to reduce the size of their chips. We are at a stage in chip development now where we are getting down to very small – I mean the sector is already small – they are really now extremely small and Soitec's technology is allowing the move down to 65 nms per circuit and ultimately 32 nms per circuit, and they have a patented technology in this area. Although there are other ways of making this reduction and allowing this reduction in the circuit size, none of them are suited to mass production in the way that Soitec's technology allows. Therefore, in this particular niche they have a market share of approximately 80%. Why has the stock fallen? Well, we have had an inventory correction in the industry which always makes people think that this is the beginning of the end for electronics. It never is the beginning of the end. So that was one issue. The second issue was that there were some temporary problems at AMD Advance Micro Devices in America and those are being sorted through. I do not think there is a problem there at all, but these have hit the stock in the short-term.

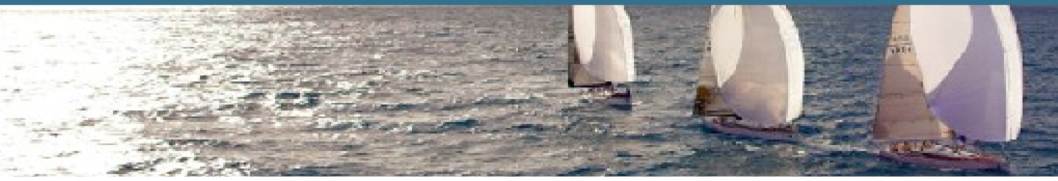


Market focused on Cimzia delay but Keppra is more important to valuation

The third stock I wanted to mention was UCB, which is a Belgium pharmaceutical company. The company has two products I consider key. They have a product called Keppra and they also have a product called Cimzia. Now when we value these pharmaceutical companies, we try to understand what sort of cash flows are going to be generated by each drug in that pipeline and then we look at the net present value of that. Based on this analysis, Keppra represents approximately 35% of the company value, while Cimzia represents about 15%. What has happened here is that there was an unexpected delay in the approval in America – not in Europe – in America; of Cimzia. They basically want new data. They want some data reanalysed, really, so that is what has really driven the underperformance of the stock.

However, when we stand back and look at this investment case, the first point is that the key to the investment case is the market's misunderstanding of Keppra. Keppra is a drug for epilepsy. Epilepsy is a particularly difficult disease to treat and doctors are very wary of prescribing new drugs. In other words, if they have one and it works, they cannot move on to a different one. Now what this means is that although Keppra is a very strong drug, the growth profile tends to be a slower build than a normal new drug, because of this reluctance to prescribe to new patients.

So it is growing and it is becoming one of the pre-eminent epilepsy drugs. It also means that when the patent disappears, doctors are very loathe to prescribe the generic product, because again, they know that the drug works and they are frightened to go for the generic because the consequences for an epilepsy patient are very dramatic. So what people do not understand with Keppra is that it is going to have a very long, steady ramp-up and when I say slow, I mean this thing is growing at 35%, so it is nothing to worry about. And then it will also have a much slower ramp down when the generic drug finally comes out. And the other point I would like to make is that even if we take Cimzia out of the valuation altogether, which is being ridiculously pessimistic, there is still significant upside in the stock, so there is nothing to worry about there, I do not think.



Responses to underperformance

Regarding TomTom, I visited Amsterdam a couple of months ago and I had a very good two hour meeting with the Chief Executive of the company – the founder of the company. Additionally, I have met the Finance Director on a couple of occasions. We discussed at length the strategy and new products. After these meetings my conviction in the investment case was very much reinforced and at that time I did marginally add to the position. So we remain very much in contact with TomTom. There is a constant exchange of phone calls and e-mails to their investor relations people regarding new competitive products.

Regarding, UCB we actually have a Pharmaceuticals team here and the Analyst who covers UCB is very close to the story. She has followed these developments closely and reported back on them, so I have a steady stream of information coming in. Last year I attended a research and development day at UCB to get closer to the story particularly on Keppra and some of the other drugs they are developing for epilepsy. We remain very comfortable with the strong valuation case and as I say, even if you assign no value to Cimzia, there is significant upside driven by the value of Keppra.

Finally, on Soitec, I am in the process of arranging a meeting and hope to visit the company in the next couple of months. We have asked not just to meet the guy who runs the business, but we have also asked to see some of the operations and maybe even get into the factories and so on, and get closer to the technology there. You know, our expert Analyst here is fully convinced that the potential of the technology is huge and more importantly, that there is not a competitive product out there that could take market share from Soitec. So we remain comfortable with the investment case. However, I have not added to the position yet. I would rather wait to until I have actually been down to the factory and talked through some of the issues a bit more closely. It is a small position; it is only just over 1% of the fund.

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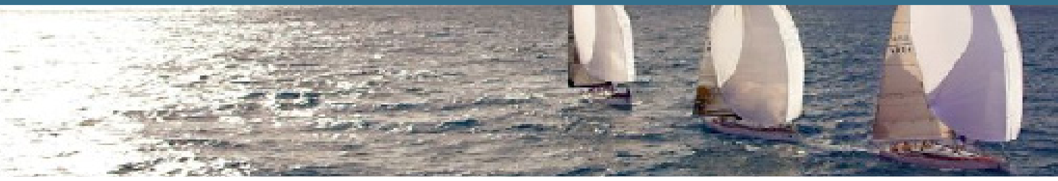

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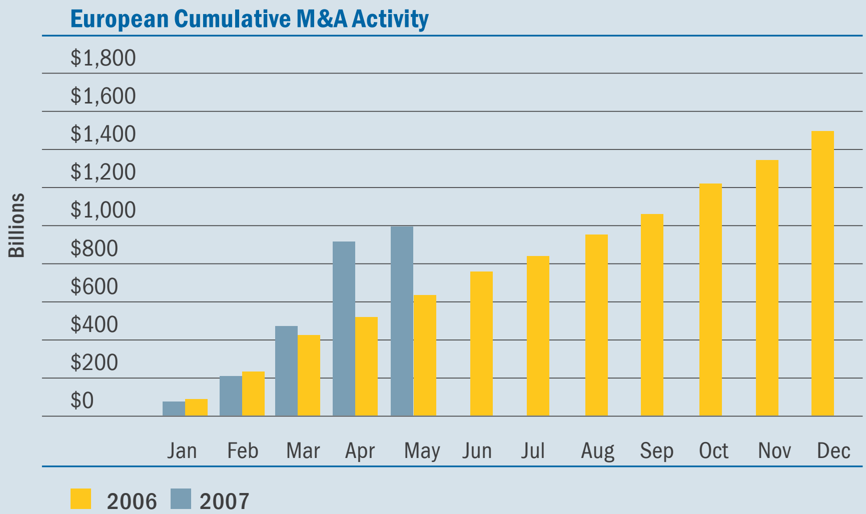
Current market environment dominated by M&A activity

Mergers and acquisition activity has dominated the market over 2006 and particularly over 2007. As you can see from the chart, 2007 monthly merger and acquisitions activity is absolutely huge relative to 2006, and 2006 was a pretty good year itself. So you know, this is absolutely dominating the market and it tends to mean that you get a market not focusing on fundamentals.



Source: Bloomberg, 09 May 07. Charts shows M&A volume measured in US dollars in Western Europe.

We have benefited to some extent from these M&A developments. Shares in ABN Amro, a Dutch banking group and recent purchase, rose sharply following Barclays' announcement that it had embarked on exclusive talks with its Dutch rival about a merger. ABN Amro's shares advanced a great deal over the first part of 2007 and strongly contributed to Portfolio performance. We have sold out of the position as we do not believe its share price will rise much further.

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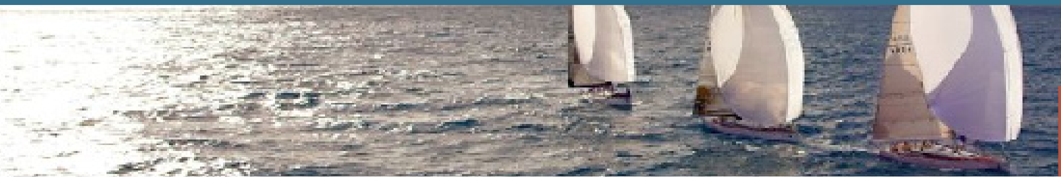


Another stock that has benefited is Adidas – not that it is a direct takeover target itself, but Puma was a takeover target and we believe that that is what has driven the Adidas price up so suddenly. We do believe that there is a lot of potential left in Adidas. This is why we continue to hold the position. The Analysts and I went over to Boston recently to meet with Reebok, which Adidas bought last year and was a key part of the investment case.

Conclusion

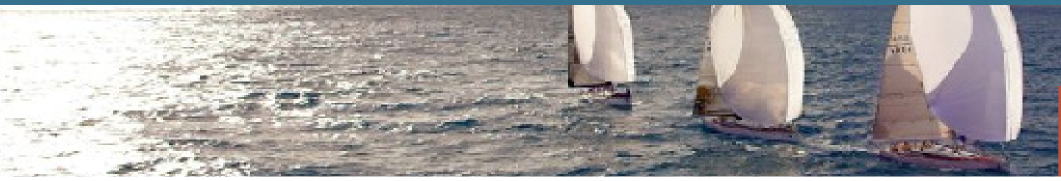
We believe European equities remain attractive, both in absolute terms and relative to bonds. If you look at the yield on equities relative to bonds we are at very interesting levels for equities. Companies in Europe are financially healthy and they are increasingly shareholder-focused, which is interesting. We are still finding new investment opportunities and we are finding them in those areas that I have talked about before, the strong companies, the recovering companies and the misunderstood companies.

There is no doubt that the M&A feeding frenzy is going to subside at some point. I can not tell you when; I have no idea. But when that does happen, we will get a focus back on fundamentals, which is what this fund benefits from.

Questions and answers

Do you believe that European companies will suffer as a result of the higher euro?
There is no doubt that a strong euro is generally not good news for European companies. In fact, this morning the Chief Executive of Peugeot was talking about the difficulties they have with the stronger euro. But that said, I think in general the strength of the euro is being outweighed by restructuring and cost-cutting in companies. And Peugeot itself was a good example of this. They plan to cut their costs by something like 30% by 2010, so there is a lot of cost-cutting and restructuring going on. Another company I would mention in this regard would be Siemens, which obviously is an exporter and suffers from weaker dollar.

The second point, I think, is that a lot of companies actually source product in countries which are either dollar-denominated and dollar-linked, and TomTom would be a case in point here. So you know, all the manufacturing of TomTom's devices is done in Taiwan and China. And clearly the currency there is linked to the dollar, so you know, I think there are mitigating factors.

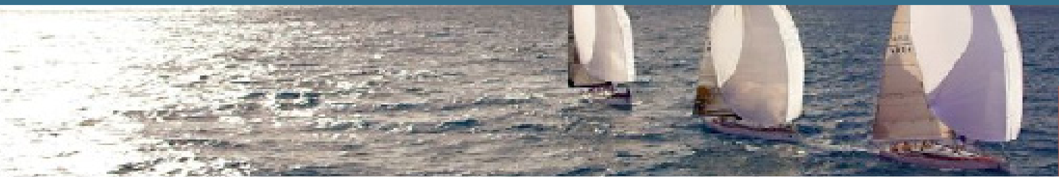


And just finally, I would mention that if you go back we had very similar issues in Japan in the 1980s. We had a very strong yen following the 1985 Plaza Accord, but the competitive position of their big, strong exporters was not actually damaged because the companies were in good health. They did move manufacturing abroad, just as the Europeans are doing now, and they had products that people wanted to buy, which I believe is the key issue.

Do you think dividend yields will continue to support the market?
Yes, I do. The dividend yield in Europe is healthy at the moment. We have a forecast dividend yield for 2007 of about 2.75%. These dividends are covered, which means that companies are in a strong position to pay them. So the earnings from which these dividends are going to be paid are nearly twice as high as the dividend, and when you look at overall forecasts for earnings growth this year, we are looking at something like 8-9% for Europe. But dividends are expected to grow at more than that, so double-digit figures. So yes, I believe dividends should continue supporting the markets.

Regarding the stocks you mentioned in your presentation, what were their weightings relative to the MSCI Europe Index?
TomTom is not in the Index and today's TomTom position is 7.47% of the fund, and therefore it is an overweight position of 7.47% (in the presentation this was 7.2%). TomTom has actually started performing well recently, which is why the position has risen. UCB is 0.07% of the benchmark; it is 2.69% of the fund, which makes it an overweight of 2.62%. Soitec is not in the benchmark; its position in the fund is 1.27%, so that gives you an overweight of 1.27%.

Could you talk through some of the highlights of the Portfolio such as the market cap breakdown, the sector overweights and underweights, the number of holdings and number of off-benchmark positions please?
Ok, starting at the end: the number of off-benchmark positions. I can tell you we have TomTom, we have Inmarsat, Bristol-Myers Squibb (which is an American company), we have Pendragon, Shire Pharmaceuticals, Soitec, GIMV and Arcelor-Mittal. The number of positions is 34 currently, but there are two actually being sold out so I think we will be down to 32 shortly. The fund currently has an approximate 61% weighting in large caps. Large cap companies have a market cap of over €10 billion, these account for approximately 80% of the MSCI Europe Index, so we are currently



approximately 20% underweight in the large cap market. We currently have an weighting of approximately 24% in mid caps and a 14% allocation to small caps, representing significant overweights versus the benchmark.

Can you talk a bit about what you see as the main risks in Europe?
Well, we have the geopolitical risks obviously, which are extremely hard to quantify, so I am not really sure that it is worth spending a huge amount of time on that. Linked to those geopolitical risks, is the oil price. In the long-term I do not believe the oil price will remain strong for a long period of time but in the short-term it is clearly drive by geopolitical events.

Just to give you an idea, you know, the third biggest known oil reserves in the world are in Iraq, and there was an article in the FT the other day saying they might even be twice the size of what we had previously thought. Can you get the oil out of Iraq?

I have already touched on the currency risks. Rising interest rates are also represent a potential risk. I am not concerned that the European Central Bank is pushing things too fast. However, clearly there is a risk that if they misunderstand the strength of the economy at some time they could push interest rates too far. But I do not see there is particularly any danger of that at the moment.

At the micro level, at the individual company level, I think things are looking good. I think we have a lot of strong companies focusing on shareholder value. So I think risks are limited.

Are you confident that you can continue to deliver attractive investment returns in today's market?
Yes, I think we can deliver good returns. I say that partly because I see very significant upside in a number of the stocks – well, in all the stocks I hold in the portfolio. By 'very significant' I mean, the average upside I see in the stock is well over 20% to intrinsic value. I think there is value in the market, despite the fact that the bull market has been in place for four years.

And the other thing I think, you know we talked a bit earlier about the feeding frenzy in mergers and acquisitions, and this has very much concentrated the market into a few stocks and a few sectors while ignoring others, and I think this is an opportunity

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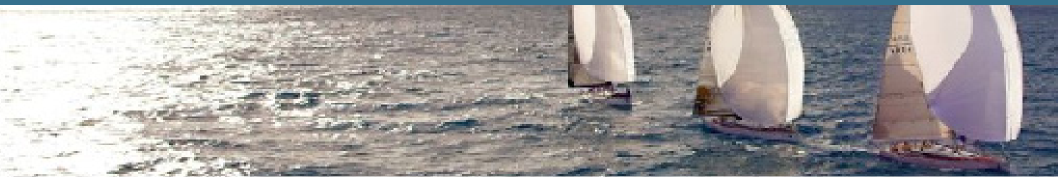

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to buy quality stocks which have been forgotten and, you know, I have mentioned for example TomTom again, Wolseley another great company which has done very little this year, and Ericsson which has actually gone down. This market environment is giving us opportunities to purchase companies with strong competitive positions, which are attractively valued. Until the M&A feeding frenzy is over we have to perhaps be a little bit patient.

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