

# Pioneer Funds – Top European Players

*Web Conference Call Transcript, 15 June 2007*



European Equity  
June 2007

## Agenda

There are a few topics I would like to cover during the presentation today. The first is to provide a brief overview of the differentiating features of Pioneer Funds - Top European Players. I would then like to focus on some of the issues concerning year-to-date performance for the Portfolio and the various drivers that have affected performance. Finally, I will provide a quick update in terms of Portfolio positioning at present and a general outlook of our view of the European equity market.

## Distinguishing Characteristics

The key and most important differentiator of this approach is that it is a concentrated way of investing in the European equity market. Not only do I restrict the number of holdings within the Portfolio, but stocks are owned as significant overweights when compared with the benchmark weight and there is a minimum overweight or active position for every stock in the Portfolio of at least 1.5%. This is the minimum active starting point and positions increase quite significantly with some of the larger overweight positions within the Portfolio. In essence, it is all about investing with conviction and that is what we are trying to achieve with this Portfolio.

The types of companies that I look to include in the Portfolio should offer a combination of good quality in terms of the underlying fundamentals of the businesses in which they operate and a clear undervaluation. The emphasis on quality is there to provide a measure of downside protection for holdings in the Portfolio that will always be very significant both in absolute and in relative terms for the weightings. By quality aspects we are referring to issues such as financial strength and cash flow generation, companies that have a strong competitive positioning within their industry or sector, the quality of company management; and where we believe the businesses offer a reasonable level of underlying organic growth over the medium-term.

We are also looking for substantial upside when it comes to valuation. I look at valuation from the point of view of comparing the relationship between what we pay for capital investors in businesses and the return on capital that those companies generate for us as shareholders. We are also looking for a favourable trade-off or relationship between those key metrics.

The types of companies that we emphasise are those that offer a combination of good quality and also a clear undervaluation. In order to get the most out of this strategy, I believe it is important to apply an appropriate time horizon when it comes to making the investment decisions and this is a medium-term horizon. By medium-term, I

# Pioneer Funds – Top European Players

Web Conference Call Transcript, 15 June 2007

European Equity  
June 2007

mean two to three years. This is the typical time period that I have in mind when making investment decisions for the Portfolio, so it is a genuinely medium-term approach and not a trading oriented style of running the Portfolio. Therefore, we should expect and do see a frequency of trading in the Portfolio which is quite controlled. There is a very strong emphasis on fundamentals and a research-driven way of studying businesses. We have the support of a strong team of equity Research Analysts which is very important to the investment process of this product. We have an established team of 23 equity Research Analysts based in Dublin focussing on all sectors of the European market.

## Performance

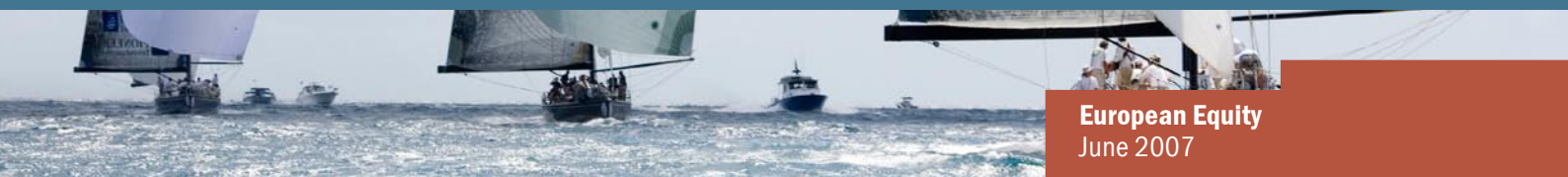
Recent performance has been a bit disappointing. Benchmark returns year-to-date have been strong, up over 10% in total return terms and the Portfolio has lagged the benchmark by just over 1% through to the end of May. In the first quarter of this year both Portfolio and benchmark returns were close to 3%, so more or less in line in terms of relative performance. There were some sectors where the Portfolio added some good value against the benchmark, such as Telecoms, Banks, Retailing, Media and some sectors which detracted from performance during the first quarter such as Consumer Services, Capital Goods, Food Retailing and Food, Beverage & Tobacco, but overall more or less in line first quarter. Performance remained in line through April but when we look at Quarter 2 up to the end of May, the picture is slightly different. The benchmark has been strong again in this period, up by 7.2%, and the Portfolio is up by almost 6%. Again, sectors where the Portfolio has performed better in relative terms include Capital Goods and Food, Beverage & Tobacco, reversing the situation of Quarter 1 for those areas. We see some further detractors in terms of sectors where the Portfolio has lost an amount of performance including Transport, Banks, Utilities and Consumer Durables.

	Portfolio	Index	Relative
<b>Year-to-date</b>	<b>9.02%</b>	<b>10.26%</b>	<b>-1.12%</b>
<b>Q1</b>	<b>2.95%</b>	<b>2.89%</b>	<b>+0.06%</b>
Contributors	Telecoms, Banks, Retailing, Media, Insurance		
Detractors	Cons Svs, Capital Goods, Food Retailing, F/B/T		
<b>Q2 to end May 2007</b>	<b>5.90%</b>	<b>7.16%</b>	<b>-1.18%</b>
Contributors	Capital Goods, Food/Beverage/Tobacco		
Detractors	Transport, Banks, Utilities, Consumer Durables		

Source: Pioneer Investments and MSCI. Performance as at 31.05.07 for E class non-distributing units denominated in euro and gross of fees.

# Pioneer Funds – Top European Players

Web Conference Call Transcript, 15 June 2007



European Equity  
June 2007

## Key Contributors and Detractors in 2007

What I would like to do now is to drill down to the stock level. In the table below, I have listed some of the individual stocks held in the Portfolio which have been important contributors to and detractors from performance and the scale of performance added or subtracted by these positions. On the left hand side, we can see there have been a number of companies that have actually produced good returns including some of the longer-term holdings in the Portfolio. For example, Porsche has continued to perform well in share price terms in 2007 following several years of solid performance before that. The contribution made by ABN AMRO, which is a stock I introduced into the Portfolio early in 2007, is linked to the M&A situation surrounding it, which led to a strong performance in share price terms.

Top 5 Contributors	bps	Top 5 Detractors	bps
Porsche	54	Persimmon	-64
ABN AMRO	51	Royal Bank of Scotland	-36
Volvo	51	Danske Bank	-35
Siemens	48	Ericsson	-26
BASF	28	Ryanair	-26

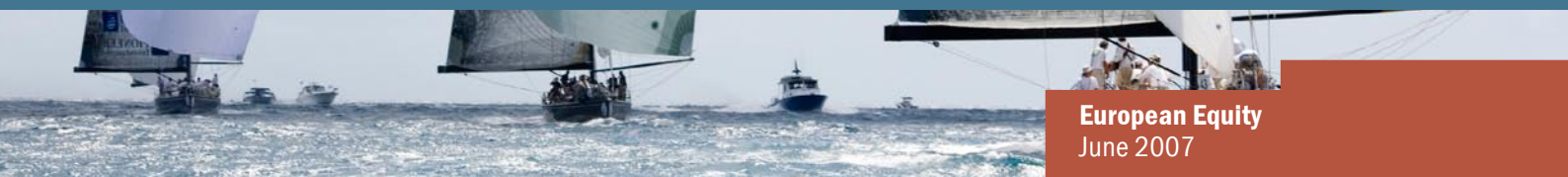
Source: Pioneer Investments, 12.06.07.  
Data covers the period 31.12.06 to 31.05.07.

Another recent addition is Volvo that has generated solid returns over a short period of time. Siemens is a company that we have held in the Portfolio for about two years. It took time to start delivering in terms of share price performance but it has been a positive stock for us. Most important to the overall recent performance of the Portfolio are the stocks which have detracted from relative performance against the benchmark. There are a few names such as Persimmon, Royal Bank of Scotland, Danske Bank, Ericsson and Ryanair. I will now look at a little bit of background in terms of what has happened to some of these share prices to lead the stocks to underperform, what our current reading of the situation is in relation to these companies and how we have responded.

One of the more significant detractors for the Portfolio recently has been Persimmon. Persimmon is currently the largest house building company in the UK. We acquired the position late in 2005 and it generated a solid positive contribution to the Portfolio throughout last year. The stock has performed poorly in 2007 mainly due a shift in investor sentiment following concern over the impact of higher UK interest rates that have increased in recent months. Our view on this company and on the sector in general is a positive one. We predict strong medium to longer-term secular demand for the house builders in the UK, essentially due

# Pioneer Funds – Top European Players

*Web Conference Call Transcript, 15 June 2007*



**European Equity**  
June 2007

to an undersupply of new homes being built in that particular market relative to the demand which exists.

There is a lot of consolidation taking place within the sector that has had a positive impact. We have a stock that is also lowly valued by the stock market; currently the price/earnings ratio for the current year is around 8.5 and the dividend yield for the company is about 4%. We also believe that the management of this business is very strong with an excellent track record of delivering solid returns in the past.

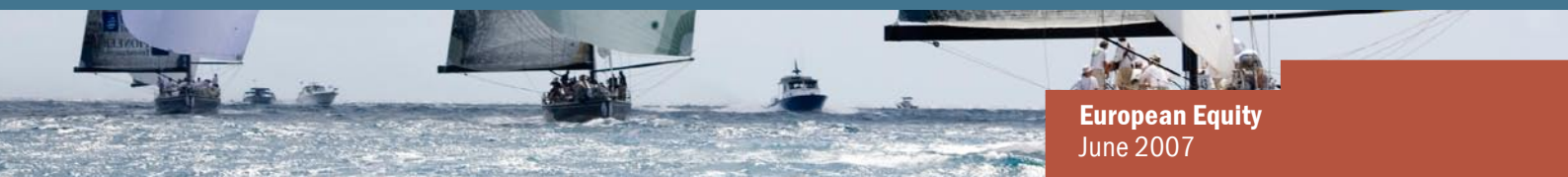
We have had several meetings with the company including a conference call with the Chief Financial Officer (CFO) and we were satisfied that the business is continuing to perform well with no downturn predicted. The share price in this particular case would imply a substantial deterioration in profitability but given the attractive underlying fundamentals we believe this scenario to be very unlikely. This potentially offers a very attractive risk/reward scenario and therefore we have added to the weighting in the Portfolio in recent weeks with Persimmon remaining one of the largest overweights in the Portfolio.

Another stock that has been a bit of a drag on performance recently has been Royal Bank of Scotland, a leading UK bank with International operations and well diversified lines of operating businesses. The main reason for the underperformance of the stock has been the company's involvement in the bid battle for ABN AMRO. The Portfolio gained in holding that stock but suffered a bit in Royal Bank of Scotland. There are two groups bidding for ABN AMRO. Barclays are bidding along with a consortium including Royal Bank of Scotland. There is some uncertainty over the price that Royal Bank of Scotland may end up paying, and also the fact that there will be an equity issuance to partly fund the transaction have led to the stock underperforming recently.

We believe that when we look at valuation we see a lot of support for the stock and the price/earnings ratio for Royal Bank of Scotland for 2007 is below 9x and a 5% dividend yield is also available. The company recently issued a trading statement commenting on year-to-date performance and that was quite positive. Royal Bank of Scotland pointed out that business has been progressing ahead of analyst expectations in the current year, so again we do not perceive there to be an underlying difficulty in terms of its operating business. What we have done internally is to review the investment case, we have had lengthy discussions on the position and we have added to the position in terms of Portfolio weight over the last few weeks encouraged by the upside that we can determine when it comes to the valuation. The management of Royal Bank of Scotland have been quite restricted in terms of their communication with shareholders given their involvement in the bid. However, we have set up a meeting with the management in the coming weeks to gain further insight into the investment case.

# Pioneer Funds – Top European Players

*Web Conference Call Transcript, 15 June 2007*



**European Equity**  
June 2007

Danske Bank, a leading Danish bank is another company within the Banking sector. The stock has lagged a bit in the last month or so and the overall sector that it operates within has been very weak. I believe there have been some concerns over the impact of a slowing mortgage market in their main market of Denmark. We would view these fears as being overstated in terms of the likely impact on profitability for the business. In our view, Danske Bank is a high quality, low risk bank that is well managed, with strong capital ratios and limited capital markets exposure. In the current year we still anticipate strong growth for the business in net interest income which we see running in the high single digit percentage growth range. We see potential growth in terms of profits due to the integration benefits of some recent acquisitions by the company over the past few years that are feeding through and starting to impact the P&L and cash flow. We believe this company should benefit in the coming months from a likely reduction in the corporate tax rate in Denmark that could add 2% to 3% on an ongoing basis to the potential earnings for the business.

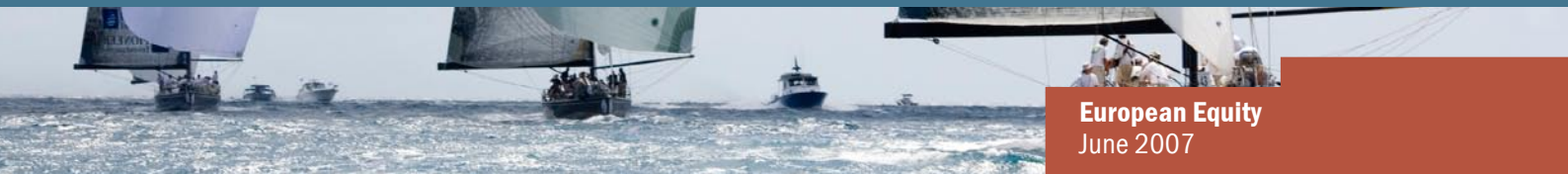
We believe some of the sentiment regarding the slowing mortgage market in Denmark is overplayed. We point out that the loan-to-value ratio for Danske Bank in their Danish mortgage business is around 40% to 45%, which obviously provides them with a high degree of comfort from possible falls in property prices. Danish unemployment is also improving at present and is currently running close to long-term record low levels. We have met the company and CFO in the last few weeks and organised a conference call with investor relations that encourage us to continue with the position.

There are some reasonably large divergences in Portfolio weightings from the benchmark due to the Portfolio's stock-driven approach. It can and does result in some large differences from the benchmark when it comes to sector weightings. It is very much the case that the underlying stock selection in this Portfolio ultimately drives both sector and country weightings.

The Consumer Discretionary sector is quite a large overweight area for the Portfolio, at about 8%. It comprises a number of industry groups, for example, Autos where the Portfolio has been overweight for a number of years. We have maintained an overweight of approximately 5% in that particular part of the market, which has actually been performing well over the last year and year-to-date 2007. We have a number of holdings in Autos including Porsche and Continental in Germany. The Consumer Discretionary sector also brings in our exposure to the UK house builders Persimmon discussed earlier.

# Pioneer Funds – Top European Players

*Web Conference Call Transcript, 15 June 2007*



**European Equity**  
June 2007

There are a number of other individual stocks where we are overweight within the Consumer Discretionary sector such as Adidas, Carnival, which is the world's largest cruise line operator, and OPAP, which is a Greek gaming company. The next largest overweights in sector terms include Industrials, Capital Goods and Transport where we have some big positions in companies like Siemens, G&T, Volvo and Wolseley. In Financials, again we hold an overweight of approximately 3%. We are more concentrated currently in Banks than in Insurance.

Materials is also a sector where the Portfolio is about 3% above the benchmark weighting. We hold positions in such companies as CRH in Ireland, Holcim in Switzerland, the world's second largest cement producer, and BSF, a large chemicals company based in Germany. Underweights in the Portfolio currently include Utilities, Telecoms and Consumer Staples and there are actually areas where the Portfolio currently has no exposure at all. We have been concerned about the outlook for the Telecoms area in terms of the sustainable level of margins, cash generation and anti-growth for some of the companies given that they face a number of challenges from higher competition and tighter regulation. As a result, we currently hold no weight in Telecoms in the Portfolio.

# Pioneer Funds – Top European Players

Web Conference Call Transcript, 15 June 2007

European Equity  
June 2007

## Buys and Sells in 2007

The table below highlights some of the recent transactions that have taken place in the Portfolio. It details some of the main stocks that we have added in 2007 and also, stocks that have been sold from the Portfolio.

Trade	Stock	Industry	Reason
Buy	ABN Amro	Banks	Restructuring and recovery potential
Buy	National Grid	Utilities	Beneficiary of infrastructure build in UK
Buy	Volvo	Capital Goods	Strong EM demand. Excess Capital.
Buy	Allianz	Insurance	Upside potential. Excess Capital
Sell	Shire	Pharmaceuticals	Share price target reached
Sell	Next	Retailing	Share price target reached
Sell	WPP Group	Media	Share price target reached
Sell	ABN Amro	Banks	Share price target reached – M&A

Source: Pioneer Investments, 31.05.07.

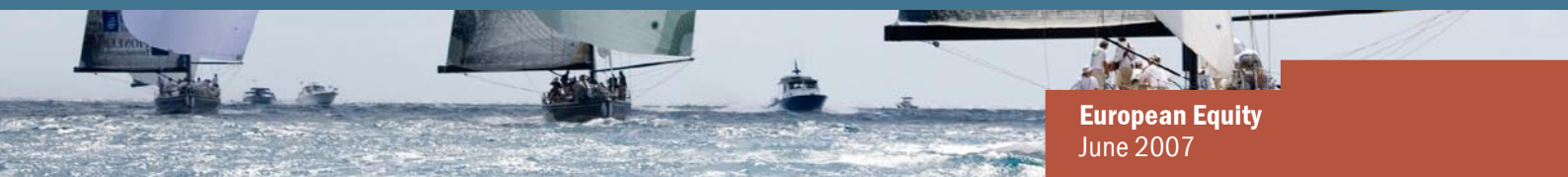
We introduced ABN AMRO earlier in the year. Our Analysts reviewed the investment case and identified that management was getting serious about increasing and improving returns for shareholders. They released an aggressive earnings target to be realised in the current year and the company has also benefited from a higher level of dividend yield. We sold the position as it no longer offers further upside.

Other stocks we have added year-to-date include National Grid which is a UK utility company. We like this investment case. We believe there is a lot of investment that needs to take place in the UK and in the US in the electricity and gas infrastructure networks that needs to be improved and developed for these countries. We believe this company will be a key participant in that investment procedure, while achieving a pretty solid regulated return on the capital that they deploy in building out this infrastructure in the future. They will be increasing their regulated asset base significantly and that is going to drive a consistent growth in terms of profit. Again, we have a company with an attractive dividend yield of above 4% that has a number of non-core assets that they are in the process of disposing and returning proceeds to shareholders.

Volvo is a Swedish truck manufacturing company that we acquired in the last few months. We identified that this business was attractively valued, even in the event of a downturn in the US truck market, which may take place this year. We believe the business offers an attractive dividend yield following some recent acquisition activity and can deliver some reasonable synergies.

# Pioneer Funds – Top European Players

*Web Conference Call Transcript, 15 June 2007*



**European Equity**  
June 2007

Allianz is the stock that I have bought in the Insurance sector. We believe there is big potential to improve costs and we see an improvement in terms of capital discipline within the business. We expect that Allianz can continue to accumulate quite a large excess capital position over the coming years, and that they will be deploying this excess capital in shareholder-friendly ways, including dividend hikes and potential share buy backs. The company have set a target of growing their operating profit by 10% and a compound annual growth rate of 10% on average between 2006 and 2009. We are confident that they can deliver and if they do, the stocks should be rewarded as it trades on around 10x earnings.

At the bottom of the table on the previous page, are the companies Shire, a UK mid-cap Pharmaceutical business, Next, another UK company in the Non-Food Retailing area and WPP, one of the largest advertising groups globally within the Media sector. All of these stocks had reached the price targets that we had established for them and in some cases even surpassed the price targets. We decided to sell out of them and to find new opportunities. ABN AMRO was sold having risen by approximately 40% on the bid situation.

## **Economic Conditions Remain Strong**

European equities have performed well over the last few years posting strong returns and that trend appears to be continuing due to solid returns year-to-date. Nevertheless, we maintain a reasonably positive outlook for the overall environment even after the strong gains that we have had and a few reasons support our view.

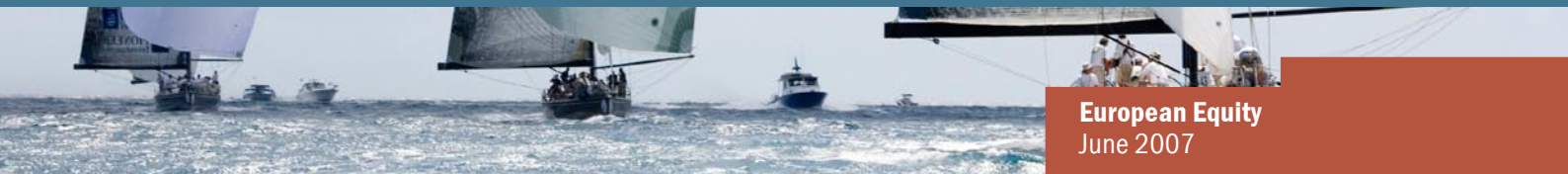
Essentially, when it comes to economic conditions in Europe they are currently favourable, in our view. Valuations remain attractive despite the upward trend we have seen in the market. The corporate sector remains healthy in Europe and is increasingly focused on generating good shareholder returns.

Eurozone GDP growth this year is running at approximately 2.6%, which is above trend. We believe that sort of growth rate can also be sustained looking into next year as well. Most sectors of the economy are performing well in Europe at present, so the recovery is fairly broad-based. What started with economic growth a few years ago, coming mainly from exports has now been boosted by good growth in business investment in Europe and also growth in employment. As a result we are finally witnessing private consumption growth after a number of years of being pretty weak. Growth is getting up to a level of around 2%, which is obviously important, as it is the largest component of the European economy.

Europe continues to benefit from solid global growth figures. The government finance position in a number of European countries is also improving, which is a further support for economic growth going forward. We believe unit labour costs are under control. Productivity growth is

# Pioneer Funds – Top European Players

*Web Conference Call Transcript, 15 June 2007*



**European Equity**  
June 2007

continuing to improve, and there are actually few signs of wage inflation in Europe currently. We expect the ECB to tighten further following concerns over relatively high rates of growth in money supply and private sector credit growth.

Valuations, in our opinion, remain supportive and not concerning at current levels of around 14x for the market in 2007. This will be accompanied by dividend yield, which is also attractive at close to 3% for Europe overall. This is a good starting point when we think of total returns. We believe dividend yields will be supportive of dividend growth in Europe. This year will, we believe, run in excess of the rate of actual earnings growth, so we could see double digit growth in terms of dividends, again helping to support the yield situation.

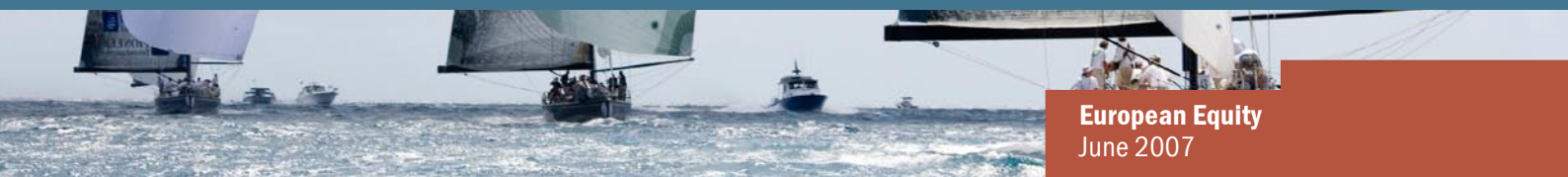
European companies are in a strong financial position overall. Free cash flow yield is high. Companies have paid down debt over the last number of years. We are generating good levels of cash flow and cash is being deployed in ways that are generally positive for the shareholder.

We mentioned higher dividends, we also see higher share or continued share buybacks. In 2006 share buybacks accounted for around 2% of the total market cap of the European equity market. At present there is a strong M&A theme taking place in the market. 2006 was a buoyant year for M&A in Europe. 2007 is already running above those levels. The largest area for M&A activity has been in the Banking sector. This is not surprising given the ABN AMRO situation and the acquisition by our own parent company, UniCredit, of an Italian rival Capitalia. Overall, the M&A activity taking place is generally supportive for the outlook for European stocks. I believe it is worth mentioning that a potential side-effect of this activity is that the threat of being an M&A target is exerting greater pressure on corporate managements of many European companies to continue delivering operating and capital efficiency improvements.

The economic background remains favourable, valuation are attractive and the corporate sector is cash rich. However, there are risk factors that we do not ignore and they include potential concerns about the weakness of the US dollar against the Euro. Other risk factors include high oil and commodity prices that exert some pressures on the profitability of European businesses; a potential slowdown in global GDP growth rates. We have witnessed some moderation of growth in the US this year, but overall oil growth will continue to run at a healthy pace and the European Central Bank (ECB) may be over-aggressive in terms of monetary policy and tightening. Overall, when we look at the sort of valuation levels we are paying for companies, we believe that the trade-off between risk and reward, at this point, is still a positive one. Returns from the market may be less spectacular than in recent years.

# Pioneer Funds – Top European Players

*Web Conference Call Transcript, 15 June 2007*



**European Equity**  
June 2007

To conclude, the European economy is expected to continue to expand at above trend pace in the current year and, indeed, into next year. Valuations remain attractive and we believe that investment opportunities are still to be found in the European equity market. Focused stock selection is the key to maximising returns and we remain committed to a high conviction stock selection approach in managing this Portfolio. Performance has suffered recently and we have discussed some of the reasons for this. We remain firm to the philosophy and approach of the Portfolio that I identified at the beginning of the presentation and we can ultimately continue to produce good results for investors.

## Questions and Answers

**The first question concerns your exposure to France: given the newly installed President Sarkozy in France are you contemplating increasing your investments there in the hope that the new president can help bring positive incentives to French businesses?**

The approach with managing the Portfolio is very much a stock-driven one, and it is the view on the underlying companies and stock selection that ultimately produces the sector allocation and, indeed, the country weightings. If we look at the current country weightings, we see that there is a reasonably large underweight in France compared to the benchmark. When it comes to changes and the results of the recent elections, we would view those as broadly positive in terms of the potential to see reform in various parts of the economy. For example, on taxation, various measures could be taken to encourage investment in France. We will consider the French companies that we analyse in that light when it comes to making the individual stock selection decisions. We are quite encouraged by what we seem to be hearing in terms of potential changes and improvements going forward. The approach will remain very much stock-driven.

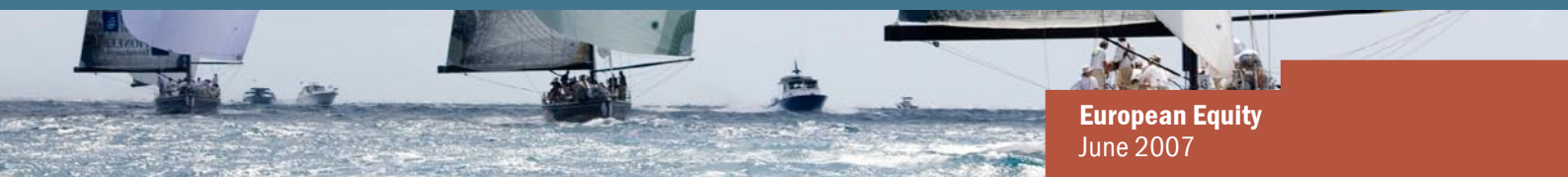
**What is your outlook for the UK and how do you think it is going to affect the performance of your Portfolio?**

Again, the same comment would apply in terms of the sort of weighting in the Portfolio and what that is likely to be. It is going to be driven by whether or not we find enough interesting opportunities in the UK market. Again, the UK is currently an underweight of around 5% compared with the benchmark. It is not a statement on a particular dislike of the UK economy, which is actually doing quite well. It should grow at close to 3% this year, and we are seeing some higher interest rates accompanying that faster level of economic activity.

The underweight at present is a reflection of not owning some of the quite large UK stocks within the benchmark. We have no exposure to companies like HSBC, for example or Vodafone and HBOS. We do not have any weighting in GlaxoSmithKline or Shell. So, just by not owning

# Pioneer Funds – Top European Players

Web Conference Call Transcript, 15 June 2007



European Equity  
June 2007

some of these large UK stocks within the MSCI Europe index helps to contribute to the sizeable underweight that we are running in the Portfolio compared with the benchmark. Again, going forward, the weightings in the UK and France, indeed all the countries will be driven by where we find the best individual stock opportunities.

**Do you have an approach to special situations? You mentioned ABN AMRO in the presentation, so for example a special situation might be to go long ABN AMRO and maybe short RBS. Do you have any particular trading strategies surrounding special situations?**

We do not. We believe that it is appropriate to own the stocks that we have in the Portfolio for the right reasons, which comes down to the combination of quality characteristics that the businesses offer and also a clear undervaluation, and that is what we remain focussed on. We do not focus on looking for a pure M&A candidate to include in the Portfolio because I do not believe that is a strong enough reason to include a stock in this concentrated strategy. If the companies do turn out, like ABN AMRO, to subsequently be a target for some other business or private equity then it is a positive but we do not set out purely to identify potential M&A candidates. Other than not owning stocks, we do not actively have short positions in the Portfolio.

## Disclaimer:

The information contained herein is from Pioneer Investments as at 15 June 07 except where otherwise stated. The portfolio is actively managed, and information may not be representative of current or future holdings.

Pioneer Funds – Top European Players is a sub-fund of Pioneer Funds (the "Fund"), a fonds commun de placement with several separate sub-funds established under the laws of the Grand Duchy of Luxembourg. The Units of the Sub-Fund may not be offered for sale in the United States of America, or in any of its jurisdiction or subject to/for the benefit of a United States person. No offer of any interest in any product will be made in any jurisdiction in which the offer, solicitation or sale is not authorised, or to any person to whom it is unlawful to make such an offer, solicitation or sale. Performance data provided in this commentary refers to Class E Units which are only offered for public sale in Italy. For details of other Unit Classes available, please refer to the Pioneer Funds Prospectus.

Unless otherwise stated, all views expressed are those of Pioneer Investments as at June 2007. These views are subject to change at any time based on market and other conditions. References to individual stocks should not be taken as investment recommendations to buy or sell any security. There can be no assurances that countries, markets, securities or sectors will perform as expected.

**Past performance does not guarantee future results.** Investments involve certain risks, including political and currency risks. Investment return and principal value may go down as well as up and could result in the loss of all capital invested. Please read the prospectus carefully before you invest.

This portfolio manager commentary is not a prospectus and does not constitute an offering of investment fund units. For additional information on Pioneer Funds – Top European Players please request a free prospectus and/or simplified prospectus from: Pioneer Global Investments Limited, 1 George's Quay Plaza, George's Quay, Dublin 2. Call +353 1 480 2000 Fax +353 1 449 5000.

The content of this commentary is approved by Pioneer Global Investments Limited. In the UK, it is directed at market counterparties and intermediate customers and not at private customers and it is approved for distribution by Pioneer Global Investments Limited (London Branch), 123 Buckingham Palace Road, London SW1W 9SL, authorised by the Financial Regulator in Ireland and regulated by the Financial Services Authority for the conduct of UK business. The Sub-Fund mentioned in this commentary is an unregulated collective investment scheme under the UK Financial Services and Markets Act 2000, and therefore does not carry the protection provided by the UK regulatory system.

**Pioneer Investments is a trading name of the Pioneer Global Asset Management S.p.A. group of companies.**

