Monthly Portfolio Update

Pioneer Funds – Euroland Equity

31 January 2018

Equity

COMMENTARY

Market Review

The European equity market began 2018 on the same positive trajectory as we saw during the final weeks of 2017. In January, the broad European equity market added over 1.5%, led higher by some of the more cyclical areas. The Eurozone market outperformed, adding over 3%. At sector level, Financials and Consumer Discretionary were the best performing, while Real Estate, Utilities, and Consumer Staples lagged.

Perhaps the most prominent event during the month was the January meeting of the ECB. While Draghi remained quite neutral in his tone, and continued to stress that the ECB would maintain its supportive monetary policy, his comments caused quite an aggressive and somewhat surprising market reaction. Investors appeared to view his comments as being more hawkish than anticipated, and as a result we saw a sharp move higher in bond yields and Euro strength, as equity markets gave back some of the strong performance we had seen during the start of the month. While volatility remains at very suppressed levels compared to historical averages, we did note an uptick in January. This served as a reminder to investors that the market can be susceptible to short-term swings. For us, the underlying fundamentals supporting the European economy remain firmly in place. Economic data released during the month continued to point to solid growth across the Eurozone, with PMI's remaining at very encouraging levels.

We have long been of the view that earnings growth will be the primary catalyst for the market to move higher from here. January marks the beginning of the Q4 2017 earnings season for European companies. While only a small percentage have reported at this point, the positive earnings momentum that we have seen in recent quarters appears to be continuing. With current valuations becoming fuller, the ongoing evidence of earnings growth is key. We continue to believe that the underlying conditions within the European economy provide a fertile environment for companies to deliver, and developments in January have helped to reinforce this view.

Portfolio Review

The Portfolio underperformed its benchmark, the MSCI[1] EMU, in January. At sector level, the Portfolio had a positive contribution from Consumer Discretionary and Information Technology. In contrast, Financials and Materials detracted.

Within Consumer Discretionary, our holding of auto-component and aerospace company GKN was a standout performer. During the month, a UK-listed Melrose Industries (an investment company specialised in the acquisition and improvement of manufacturing businesses) made a bid for GKN which caused quite an aggressive move higher in the share price. We remain holders at this point, as we await further details of the proposed deal, and monitor the potential for a more attractive offer.

Our underweight position in Financials was a clear headwind for the Portfolio in January as the sector outperformed, and names that we do not own rallied. On a more positive note, our holding of French banking group BNP Paribas recovered from some recent underperformance. In general, the continued positive economic data coming through the domestic European economy as well as the prospects of higher interest rates were a tailwind for the name.

In Information Technology, our holding of semiconductor company ASML continued to be a rewarding position. In January, the company reported a set of very strong Q4 numbers which came in significantly ahead of both company guidance and investor expectations. The company generated 2.6bn Euros of revenue in the quarter, which represents a 34% growth rate (YoY). On top of this, order momentum remains strong with the company reporting a record backlog. The dividend was raised by 17% and the company announced a 2.5bn Euro buyback for 2018/19 which was a clear support for the share price.

The Portfolio lost some relative performance within Materials. Our holding of international cement company HeidelbergCement detracted. While company specific newsflow remained quite muted

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during the month, the shares appeared to be subject to some profit taking in the wake of recent good performance.

Within Industrials, the Portfolio gave back some marginal performance predominantly as names which we do not own outperformed. More positively, our holding of capital goods company Schneider Electric outperformed. In general, the underlying business trends among the capital goods companies have been solid, with global growth a key support. Results released in January from some key peers suggest that this continues to be the case which was clearly supportive.

Healthcare detracted in January. At stock level, our holding of pharmaceutical company Shire detracted following the release of a business update. From our perspective, the new 2020 revenue guidance of between 17-18 billion U.S. Dollar should be seen as quite supportive, albeit lower than the 20 billion previously stated. Sentiment towards the name remains very weak as investors appear concerned about the potential for pricing pressure coming through in the U.S. – especially related to the haemophilia business. Against this backdrop, any marginal negativity can weigh on the stock, as we saw in January. We continue to believe that the company offers an attractive product pipeline, and that the current valuation appears to be very cheap which should be supportive over the more medium-term.

Given the more positive market environment that we saw in January, some of the more defensive names underperformed. Against this backdrop, the Portfolio lost some ground within Consumer Staples. At stock level, our holding of Kerry Group detracted. The company did not report any significant news, and we remain firmly committed to the investment case, however the share price appeared to be subject to some profit taking following the recent move higher.

In Telecommunication Services, our holding of Dutch-listed KPN detracted. At the end of the month, the company issued a set of somewhat disappointing Q4 numbers, while guidance for flat EBITDA growth and declining cap-ex was reiterated. We continue to view the underlying business trends as encouraging and we maintain our position.

Finally, within Energy, our holding of Italian-listed ENI was a rewarding position. As the company has become ever more focused on the core E&P business, it is a clear beneficiary of the higher oil prices we have seen. In addition, the share price underperformed last year, so we are encouraged to see the valuation gap relative to peers beginning to tighten.

Sector Allocation	**Portfolio Weight**	**Benchmark Weight**	**Delta**
Consumer Discretionary	15.02%	14.09%	0.93%
Consumer Staples	9.50%	9.69%	-0.19%
Energy	6.97%	5.04%	1.93%
Financials	16.91%	21.03%	-4.12%
Health Care	13.43%	7.75%	5.68%
Industrials	16.22%	15.09%	1.13%
Information Technology	5.92%	8.19%	-2.27%
Materials	7.38%	8.77%	-1.39%
Real Estate	0.00%	1.76%	-1.76%
Telecommunication Serv.	6.11%	3.71%	2.40%
Utilities	1.94%	4.81%	-2.87%

Source: Amundi Asset Management as at 31 January 2018.

Portfolio Strategy

Bottom-up stock selection is the key driver of Portfolio performance and excess return. We seek to invest in high-quality, undervalued companies with strong fundamentals.

The majority of positions we hold are long-term ‘Core’ holdings. These companies are characterised by high quality, attractive valuations and strong growth potential, with a medium-term investment horizon.

The remainder of our Portfolio is built using an unconstrained ‘Opportunistic’ approach, giving us the opportunity to take advantage of different market trends, and enabling us to invest across the market cap spectrum, looking beyond the benchmark for attractive investment opportunities.

There were no new additions to the Portfolio in January.

Top 10 Overweights	Portfolio Weight	Benchmark Weight	Delta
Prudential	2.77%	0.00%	2.77%
BNP Paribas	4.47%	1.78%	2.69%
ENI	3.51%	0.88%	2.63%
LVMH	4.26%	1.67%	2.59%
ING Groep	4.03%	1.46%	2.57%
Bayer	4.60%	2.07%	2.53%
Saint-Gobain	3.07%	0.56%	2.51%
CRH	3.08%	0.59%	2.49%
Heidelbergcement	2.79%	0.31%	2.48%
Philips	3.21%	0.73%	2.48%

Source: Amundi Asset Management as at 31 January 2018.

Outlook

As we enter 2018, we maintain our constructive outlook for European equity markets. 2017 was a year for the cyclicals, with the more economically sensitive areas of the market driving the rally. Market movements in January saw a continuation of this trend, as economic data and investor sentiment remained on a strong footing. One sector which somewhat lagged in 2017 was Financials, however with the move higher in interest rates which we saw in January, Financial names were the obvious winner. While we continue to remain cautiously optimistic on our outlook for sector, we are cognisant of regulatory demands and therefore we remain very selective in our holdings. In keeping with the theme of higher interest rates, much newsflow was centred on the continued strength of the Euro, and the subsequent impact on corporate profitability. For us, the stronger Euro is a result of the improved fundamentals, and while another significant move higher would be a clear headwind, we do not see the current level as a threat to our current outlook.

Within our Portfolios, we remain cognisant of the potential for market rotations and, therefore, as we did throughout 2017, we see the need for balance. We continue to focus on idiosyncratic investment cases which offer us the potential for reliable and sustainable earnings over the medium term.

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