Monthly Portfolio Update

Pioneer Funds – European Potential
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. At sector level, Financials and Consumer Discretionary were the best performing, while Real Estate, Utilities, and Consumer Staples lagged. Looking at the small cap market specifically, it was a relative outperformer with the MSCI[1] Europe Small Cap adding almost 2%.

Perhaps the most prominent event during the month was the January meeting of the ECB. While Mr. 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 have seen during the early days 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 enjoyed a very positive start to 2018, outperforming its benchmark, the MSCI Europe Small Cap in January. At sector level, it had a positive contribution from Information Technology, Industrials, and Financials. In contrast, Materials and Healthcare detracted.

Within Information Technology, our holding of French-listed technology consultancy company Alten was a standout performer. During the month, the company reported an encouraging set of FY2017 numbers which showed very good underlying growth coming through, particularly in the domestic French market. In addition, the company's management issued a brief outlook statement for 2018 which was quite buoyant and was clearly supportive for the share price and for our investment case. Also of note was the good performance of computer hardware manufacturer Logitech which performed well following the release of solid Q3 results which came in ahead of consensus expectations.

The Portfolio lost some performance within Materials. At stock level, our holding of materials science company Chr. Hansen underperformed. During the month, the company reported a soft set of quarterly results which came in shy of consensus expectations. More positively, the company reiterated its guidance which was a small positive. In addition, the more defensive nature of the company's business model was a headwind during the month as investors appeared to favour some of the more cyclically exposed names.

Given the more positive market environment and supportive economic backdrop, some of our industrial names performed particularly well, especially within the area of capital goods. Against this backdrop, our holding of Finnish pulp and paper services provider Valmet performed well. While company specific newsflow was quite muted in January (ahead of results in early February), the share price was

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supported by ongoing investor confidence in the name and expectations of solid order momentum continuing. Our holding of Swedish engineering company Trelleborg also performed well helped by the positive underlying economic data released globally during the month.

Healthcare detracted predominately as a result of the outperformance of names which we do not own in the Portfolio. In a more positive light, our holding of Italian-listed hearing aid distributor Amplifon recovered from some recent underperformance. The share price underperformed during the final months of 2017 as investors became increasingly concerned about the slowing growth dynamics in the underlying market. These trends appear to have reversed and investors seem to have a renewed confidence in the company's ability to deliver on its organic growth targets in 2018.

Financials were a source of positive performance for the Portfolio in January. At stock level, our holding of Italian financial services company FinecoBank was a notable outperformer. Despite a lack of significant newsflow, the share price was a natural beneficiary of the rally we seen across Italian financial names given the move higher in interest rates across the board, and the potentially clearer resolution to some of the NPL issues in the region.

The Portfolio gave back some performance within Consumer Staples. At stock level, our holding of food processing company Greencore detracted. Despite releasing quite an upbeat Q1 trading update which pointed to continued strong growth in the key UK "food-to-go" market, the share price lost some of its recent gains. In general, investors continue to remain concerned about the company's ability to deliver on its U.S. business. The company issued quite an upbeat outlook for 2018, and we believe that the underlying business model remains solid.

Finally, in Consumer Discretionary, our holding of gaming company Paddy Power Betfair detracted. During the month, there were several headlines in UK newspapers sparking speculation that the Government was going to impose even more stringent regulations concerning in-shop betting machines which weighed on the sector as a whole. For us, while this was clearly a headwind for sentiment, we believe that Paddy Power Betfair is somewhat insulated given its strong online platform and compelling growth opportunities following the integration of Betfair. More positively, our holding of auto parts manufacturer Faurecia was a rewarding position as the share price benefitted from the ongoing cyclical rally given the economic sensitivity of its business model.

Sector Allocation	**Portfolio Weight**	**Benchmark Weight**	**Delta**
Consumer Discretionary	10.98%	15.19%	-4.21%
Consumer Staples	2.23%	4.99%	-2.76%
Energy	4.45%	3.05%	1.40%
Financials	16.26%	14.49%	1.77%
Healthcare	5.55%	8.00%	-2.45%
Industrials	27.02%	21.63%	5.39%
Information Technology	9.52%	11.23%	-1.71%
Materials	11.26%	7.95%	3.31%
Real Estate	6.35%	9.47%	-3.12%
Telecommunication Services	5.31%	1.67%	3.64%
Utilities	1.07%	2.33%	-1.26%

Source: Pioneer Investments as at 30.01.2018 Benchmark: MSCI Europe Small Cap

Top 10 Overweights	Portfolio Weight	Benchmark Weight	Delta
Amplifon	2.79%	0.10%	2.69%
ASR Nederland	3.09%	0.41%	2.68%
Faurecia	2.66%	0.00%	2.66%
Rheinmetall	2.98%	0.40%	2.58%
Valmet	2.75%	0.18%	2.57%
Logitech	2.97%	0.42%	2.55%
Aareal Bank	2.68%	0.18%	2.50%
UDG Healthcare	2.67%	0.19%	2.48%
RPC Group	2.77%	0.32%	2.45%
Sunrise Communications	2.60%	0.20%	2.40%

Source: Pioneer Investments as at 31.01.2018
Benchmark: MSCI Europe Small Cap

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 long-term interest rates which we saw in January, Financial names were the obvious winner. While we continue to remain cautiously optimistic on our outlook for the 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 at least partly the result of improved eurozone economic fundamentals, and while another significant move higher in the currency would be a clear headwind, we do not see the current level as a threat to our current outlook.

Within our Portfolios, we remain aware 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.

Important Information

Unless otherwise stated all information contained in this document is from Amundi Asset Management and is as at 31 January 2018.

Pioneer Funds – European Potential is a sub-fund (the “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.

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