Monthly Portfolio Update

Pioneer Funds – Global Equity Target Income
31 January 2018

Equity

COMMENTARY

Market Review

The global equity market began 2018 on the same positive trajectory as we saw during the final weeks of 2017. In January, the broad global equity market added over 5% (in USD terms) in what was a very positive month for the asset class. At sector level, it was once again the cyclical areas leading the move higher with Consumer Discretionary, Information Technology, and Financials performing strongly.

On the other side, Utilities lagged. Regionally, the U.S. was a notable outperformer, helped by a combination of buoyant investor sentiment in the wake of President Trump's tax reform and of course the ongoing weakness in the U.S. Dollar acting as a tailwind for corporate earnings.

Perhaps one of the most prominent events 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 European bond yields and Euro strength causing the European equity market to lag some global peers.

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 companies around the globe. 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. Against this backdrop we continue to favour the European market as we 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

From an income perspective, we are pleased to confirm that the 2018 target income has been maintained at 7% (for the primary distributing share class). From a performance viewpoint, January was a very positive month for the Portfolio adding 3.3% in USD terms (Class A USD).

January was quite an active month in terms of Portfolio changes as we refocus the Portfolio entering the new year. As always, we are seeking names which offer us the potential for sustainable income. With this in mind, we added a new name within Telecommunication Services. In general, this is an area of the market which has seen decent cash flow generation coming through, naturally this is a key support for the dividend potential. Here we added Dutch-listed KPN, believing that the underlying business trends within the company remain on an encouraging trajectory. With decreasing cap-ex forecasts, and continued cost cutting in across the business, we see room for margin expansion. This coupled with solid cash flow growth should be very supportive for the income element of our investment case.

We also added U.S. utilities company American Electric Power. We believe that the current valuation appears to be quite attractive given the potential for the delivery of EPS growth over the medium-term. With a potentially attractive project pipeline, we are quite optimistic for the growth outlook for the name relative to its peers. The company also offers a dividend yield of almost 4% which is an additional support for our investment case.

On the other side, we sold out of our holding of Japanese motor company Subaru. In general, the share price has been weak as product launches in the U.S. suffered setbacks due to supply issues, while the competitive landscape deteriorated for the company. Staying with Japan, we sold our holding of Japan Post. Following the divestment of their stake in Japan Post Bank, and Japan Post Insurance, we now see risk to the organic growth profile of the company. With a large cash position now on the balance sheet, we

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see acquisition risk, which could be detrimental to the dividend aspect of our investment case.

In Europe, we sold our holding of Italian-banking group Intesa SanPaolo in the wake of strong year-to-date performance. The company is scheduled to announce a new business plan, which could potentially be less favourable from a dividend perspective. Given this uncertainty, we felt it prudent to remove the position.

Finally, we sold out of our holding of U.S. chip manufacturer Intel. Newsflow surrounding the Spectre issues slowing the performance of PC's. While the ultimate impact is still largely unknown at this point we believe that better and more stable investment cases could be found in other areas at this point.

Looking at our option strategy, we wrote 9 call options and 7 put options. While the rise in volatility seen during the month made it an attractive environment for writing options, we were more cautious as Q4 earnings season got underway. As history shows, we have typically been less active in our option writing around these releases as sharp and aggressive price reactions can occur, and the probability of getting exercised increases.

Top 10 Holdings	Portfolio Weight
TSMC	3.0%
Siemens	2.9%
Royal Dutch Shell	2.9%
CitiGroup	2.9%
Enel	2.6%
Vodafone	2.6%
Sumitomo Mitsui Financial	2.5%
GlaxoSmithKline	2.4%
Exxon Mobil	2.3%
CME Group	2.3%

Source: Pioneer Investments as at 31.01.2018

Outlook

As we enter 2018, we maintain our constructive outlook for Global 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 which is clearly supportive. That said, valuations appear quite full – especially in the U.S. Our view remains that investors will demand to see the continuation of the positive EPS growth trajectory to justify share prices. For us, the key supports remain firmly in place, with a more positive economic backdrop supporting the delivery of earnings. Regionally, we continue to prefer Europe as valuations are less stretched at this point. We have read analysis about the potential impact a stronger Euro could have on corporate profitability, and ultimately on the European market. Our view is that, while this could be a potential headwind, the underlying reasons for the strengthening Euro should be viewed as a positive. Within our Portfolio, we continue to look for balance, focusing on idiosyncratic investment cases which offer the potential for sustainable and reliable earnings and dividends over the medium term.

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