

# Quarterly Portfolio Update

## Pioneer Funds – North American Basic Value

### 29 September 2017

EQUITY

COMMENTARY

## Market Review

U.S. equities posted their eighth consecutive quarter of positive returns, with the S&P 500 returning 4.5%. Growth continued to outperform value as investors rewarded secular growth over cyclical growth. The Russell 1000 Growth Index returned 5.9% vs. 3.1% for the Russell 1000 Value Index. Value, however, outperformed growth in the latter part of the quarter with the Russell 1000 Value Index returning 3.0% in September versus 1.3% for the Russell 1000 Growth Index. This was due to signs that the U.S. economy is strengthening, which is a positive for cyclical companies, many of which are in the value universe. Ten of the eleven sectors in the value index posted positive results for the month, led by Materials (+8.4%) and Energy (+6.9%). Consumer Staples (-0.4%) was the only sector with a negative return for the quarter.

## Portfolio Review

For the third quarter, the Portfolio outperformed the 3.11% return of the benchmark, the Russell 1000 Value Index. Stock selections were the main driver of outperformance but sector allocations were also a positive contributor to relative performance. With respect to sector allocation, the Portfolio's large underweight of the weaker performing Consumer Staples and Real Estate sectors was a help to relative performance. Stock selections were strongest in the Healthcare and Consumer Discretionary sectors. However, stock selections in Financials and Telecommunications were weaker.

Top individual contributors to performance included United Rentals, Scripps Networks Interactive, and Gilead Sciences. United Rentals, an equipment rental company that caters to industrial and construction companies, was the top contributor after reporting strong second quarter earnings driven by a rebound in the rental rates for equipment. Scripps Networks benefitted from the announced acquisition by Discovery Communications for \$90 per share. In Healthcare, Gilead Sciences was up 15% for the

quarter. Gilead announced plans to acquire Kite Pharma for \$11.9B in cash. Kite has a promising product for the treatment of Non-Hodgkin Lymphoma. Detractors to performance during the quarter included Pioneer Natural Resources, Southwest Airlines, and Shire. Pioneer Natural Resources fell after second quarter results massively disappointed. Southwest suffered due to concerns about falling airfares. Shire underperformed due to fears of increased competition for a key drug.

## Trading Activity

We took profits in a number of stocks during the quarter as P/E ratios marched higher. These stocks included CDW Corporation, PPG Industries, Scripps Networks, and Zimmer Biomet. In addition, we reset our Energy sector holdings to place greater emphasis on lower multiple integrated oils and less emphasis on higher multiple E&P and oil service stocks. New additions include Total and Rosneft Oil, which we funded through sales of Pioneer Natural Resources, Devon Energy, and Halliburton.

## Outlook

Looking ahead, we believe conditions for the U.S. stockmarket are favourable. Economic growth continues to improve and stock valuations, in our view, are not excessive. We do think that earnings growth will be key to further stockmarket gains, as monetary policy looks to be a headwind over the intermediate term.

Our focus remains on higher-quality stocks within value universes that trade at very attractive valuations. The Portfolio ended the quarter with overweights in more economically sensitive sectors such as Information Technology and Financials. The Portfolio's largest underweights are in the Consumer Staples, Utilities and Real Estate sectors.

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