Monthly Portfolio Update

*Amundi Funds II – Pioneer U.S. High Yield**
30 April 2018

BOND COMMENTARY

Market Review

Risky asset performance stabilised in April as investors were comforted by solid quarterly corporate earnings releases in the U.S. and Europe, the de-escalation of trade war risks between the U.S. and China and cautious geopolitical policy optimism (North Korea). The primary U.S. High Yield (HY) benchmark, the ICE Bank of America Merrill Lynch U.S. High Yield Index, has returned 0.67% for the month. HY markets benefitted from significant energy exposure, their higher all-in yield, and a benign default outlook. Spreads on the index tightened 28 basis points during the month. The two-month spread-widening "trend" was upended in April with a solid rally. At 346bp, the index spread is now 23bp above its 10 year low and 17bp below where it started 2018.

Telecom was the top performer in April, with a 3.31% excess return, it is also the third-largest sector in the index. The index's largest sector, Energy (+1.95%), was also among the best performers during the month. For the month BB, B, and CCC & lower rated bonds returned 0.21%, 0.95%, and 1.43%, respectively.

Performance Review

The Portfolio underperforming its benchmark, the ICE Bank of America Merrill Lynch U.S. High Yield Index, for the month.

The natural underweight to CCC's, given our higher quality bias, was the largest detractor to relative performance during the month. This was followed by our allocation to the out-of-benchmark positioning within convertible bonds which was also a detractor to relative performance. Within convertibles, the worst performing sectors were Basic Industries and Technology & Electronics.

Within corporate bonds, security selection was a positive contributor to performance, with Automotive, Healthcare and Technology & Electronics being the leading contributors.

Portfolio Positioning

We continue to remain overweight to the Healthcare sector through our allocation to both corporate bonds and convertible bonds. We believe that the sector could be poised to benefit from further capital appreciation in 2018. We remain underweight to the Retail sector which continues to struggle and historically is a sector that has exhibited low recovery rates in a restructuring.

We maintain a higher quality bias and, as such, remain underweight "CCC and below" rated buckets relative to the benchmark.

The Portfolio continue its practice of seeking diversification[1] and relative value by carrying out-of-index exposures, including convertibles and insurance-linked bonds. We remain constructive on insurance-linked bonds as they are uncorrelated with the financial markets, which in the long-term, provides diversification benefits and can help enhance the risk-return profile.

Outlook

The default rate for HY bonds remains well below historical averages, and we maintain a constructive outlook with respect to the U.S. economy and overall corporate credit fundamentals. Strong earnings and a record pace of debt refinancing has enabled an extension of the credit cycle.

Despite some market outflows in the sector, the supply side has remained very disciplined, with moderate net new issuance over recent months. This has allowed spreads to remain largely range-bound (340-370bps) despite other risk asset (equity) volatility.

The Fed is expected to continue to gradually hike rates, and the tapering of its bond portfolio could also inevitably lead to some tightening of credit conditions.

*Prior to 16 February 2018, Pioneer Funds – U.S. High Yield

That said, HY is less interest rate sensitive than other fixed-income segments.

We have been evaluating the impact of tax reform on various sectors and companies and repositioning our holdings accordingly. Overall, lower tax rates should have a positive impact on HY as an asset class. However, the scaling back of interest deductibility could negatively affect the more leveraged issuers. Looking ahead, any movement in Washington on an infrastructure bill has the potential to boost market sentiment.

We view the overall composition of the HY market as healthy, with an improving quality profile across a range of industries. While HY valuations are somewhat extended, we believe overall conditions should remain supportive of the asset class. In general, we are increasing our B weighting when possible, relative to BB and CCC rated credits. BB's have a higher correlation with rate increases and crossover demand, while CCC's appear too rich after having outperformed recently. B-rated credits offers the best risk/return potential as a credit.

Important Information

[1]Diversification does not guarantee a profit or protect against a loss.

On the 16 February 2018, Pioneer Funds was renamed Amundi Funds II. Prior to 16 February 2018 the name of the sub-fund was with the prefix "Pioneer Funds".

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