Quarterly Portfolio Update

Pioneer Funds – U.S. Mid-Cap Value

29 December 2017

EQUITY

COMMENTARY

Market Review

U.S. stocks maintained their positive momentum in the fourth quarter, with the S&P 500 Index gaining 6.6% pushing the year's total return to 21.8%. Within the mid cap universe, growth stocks, as measured by the Russell Midcap Growth Index, returned 6.8% slightly better than the 5.5% return for the Russell Midcap Value Index.

Within the Mid Cap Value Index, ten of the eleven sectors produced positive returns in the fourth quarter. Materials (+10.5%) and Consumer Staples (+8.6) were the stand-out sectors in quarter, while Telecommunication services (-8.5%) was the only sector to have a negative return for the quarter.

Portfolio Review

For the fourth quarter, the Portfolio slightly outperformed its benchmark, the Russell Mid-Cap Value Index. Sector allocation decisions were the main reason for outperformance due to the underweight of the poor performing Utilities and Real Estate sectors. Stock selections detracted from relative returns, namely due to stock picks in the Consumer Discretionary and Healthcare sectors.

Top individual contributors to performance included First Solar, Synchrony Financials and Freeport McMoRan. First Solar makes solar modules using a proprietary thin film semiconductor technology while the company also coordinates complete large-scale solar projects for its customers. The company's shares significantly outperformed in the fourth quarter after disclosing better-than-expected progress on its latest manufacturing process ("Series 6"), where the cost of Series 6 modules are expected to be well below in comparison to Series 4 modules, while having higher unit prices. Synchrony Financial, a company that provides a range of credit-products through partnerships with retailers and service providers, rose after the company announced an expanded partnership with PayPal in November. Freeport McMoRan, a mining company with significant proven reserves of copper and gold, rose sharply after announcing plans to divest itself from the majority of assets acquired from Plains Exploration and McMoran Exploration, essentially closing the book on their oil and gas business.

Individual stocks that detracted from relative performance included Jazz Pharmaceuticals, Acacia Communications, and Finisar. Jazz Pharmaceuticals dropped after investors grew concerned that their major revenue producing drug – Xyrem – is being challenged by generic competition. We continue to hold the stock as we believe the company is well managed and the valuation is reasonable. Both Acacia Communications are Finisar are companies focused on optical equipment companies. Their stocks dropped during the quarter as investors grew concerned about the excess capacity in the optical equipment area driven by what we believe is a temporary downturn in demand from China.

Trading Activity

Our bottom-up stock selection decisions in the fourth quarter did not result in material changes to the Portfolio's absolute or relative sector positioning. We added nine new holdings to the Portfolio over the quarter and exited seven positions. We continue to sell stocks when they reach our target price or when the fundamental story changes. In addition, we are always looking for opportunities to add stocks with attractive valuations and improving fundamentals. Individual positions added to the Portfolio in the quarter included DDR REIT A(Real Estate), Devon Energy (Energy), Huntington Bancshares (Financials), Kroger (Consumer Staples), L Brands (Consumer Discretionary), Park Hotels Resorts (Consumer Discretionary), Sealed Air (Materials), Tapestry (Consumer Discretionary) and Timken (Industrials).

Positions sold in the fourth quarter included Affiliated Managers (Financials), Boston Scientific (Healthcare), Chicago Bridge and Iron (Industrials) Kapstone Paper and Packaging (Materials), Realogy Holdings (Real Estate), Retail Opportunity Investments REIT (Real Estate), and RPC (Energy).

Outlook

Looking ahead to 2018, we remain cautiously optimistic about the relative and absolute return potential for mid-cap value equities. With an environment of reasonable economic growth, favourable interest rates, growth tailwinds in multiple industry groups, and prospects for an acceleration in mergers and acquisitions, we believe mid-cap equities stand to benefit.

We believe we have entered an environment of attractive synchronised global growth and we believe most key domestic economic indicators signal ongoing strength for the current business cycle, but not strength that could potentially overheat the economy and cause the Federal Reserve to raise interest rates faster than current expectations. At the end of the fourth quarter, the Portfolio's most significant sector overweight versus the Index continue to be in Financials and Information Technology, while the most significant underweight relative to the benchmark at the end of the quarter was in the Real Estate and Utilities sectors.

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