Monthly Portfolio Update

Pioneer Funds – U.S. Fundamental Growth
31 January 2018

EQUITY COMMENTARY

Market Review

U.S. stocks started off 2018 on a positive note, posting strong returns in response to better economic conditions and strengthening corporate earnings. The S&P 500 Index returned 5.7% for the month and growth stocks handily outperformed value, with the Russell 1000 Growth Index returning 7.1% vs. 3.9% for the Russell 1000 Value Index. Volatility in the month remained exceptionally low.

On a sector basis, nine of the eleven sectors in the Russell 1000 Growth Index posted positive results for the quarter, led by Consumer Discretionary (+10%) and Healthcare (+8%). Interest rate sensitive sectors such as REITs (-0.9%) and Utilities (-9%) were the worst performers as interest rates moved higher during the month.

Portfolio Review

The Portfolio underperformed the 7.1% return of the Russell 1000 Growth Index. Nearly all of the underperformance in the month relative to the benchmark was a result of not owning three stocks that do not currently meet the Portfolio's investment criteria: Amazon (-58 basis points), Netflix (-20 basis points), and NVIDIA (-16 basis points). The remaining underperformance was due to a few stocks that lagged the benchmark for stock specific reasons. Sector allocation was essentially neutral in the month in terms of its impact on relative performance.

Individual detractors included Broadcom Limited, which declined due to concerns about near term growth in the mobile phone market where Broadcom is a key supplier of semiconductors. We believe Broadcom is well positioned to gain market share and is well diversified across several end markets such that the company can continue to generate solid growth and strong profitability. Cabot Oil and Gas fell due to warmer weather in the Northeast and lower natural gas prices. While the stock price will fluctuate depending on natural gas prices, we believe the company's significant cost advantage over peers is a source of competitive advantage that should enable the stock to outperform over time. Finally, Johnson & Johnson declined after reporting better than expected quarterly earnings, but with a slightly muted revenue forecast from management. We believe the stock fell due to profit taking as it had performed well in anticipation of these results.

The biggest individual contributors in the month relative to the benchmark included Thermo Fisher, which rose after posting strong quarterly results driven by higher than expected organic growth. Alphabet increased as well in anticipation of solid quarterly results and a general upward revaluation for many technology stocks. In addition, Gilead Sciences rose from very cheap levels as expectations grew for their HIV products as well as a stabilisation in their Hepatitis C business.

Trading Activity

There were no new positions or deletions to the Portfolio in the month.

Outlook

As we look ahead to 2018, we are cautious in our outlook for equities given high valuations. Though tax cuts and other pro-growth government policies may further boost growth, there are significant factors that could undermine growth including the potential for the Fed to raise interest rates more aggressively if inflation increases, possible negative repercussions from restrictive immigration and trade policies, and geopolitical issues. The Portfolio remains conservatively positioned with the largest overweight in the Financials sector where we have several holdings with wide moats, high returns on capital, solid growth prospects and attractive valuations. In addition, higher interest rates may boost earnings for some of our financial services holdings.

While growth stocks performed well in January following a very strong 2017, much of the performance continued to come from a small set of highly valued growth stocks, which we believe could be vulnerable when the market corrects. Volatility has been exceptionally low over the last year but this may change if inflationary pressures continue to build, leading to further tightening of monetary policy.

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