Quarterly Portfolio Update

*Amundi Funds II – Emerging Markets Bond Short Term**

29 March 2018

Bond

COMMENTARY

Market Review

March proved to be another rough month for global risk assets, with equity markets in particular feeling the brunt of the selling.

The nascent recovery following the selloff in early February was cut short by two headwinds: first, the introduction of import tariffs by the Trump administration and, second, the first rate hike of the year by the Fed.

In terms of performance, for the month, among all asset classes the clear leaders were Brent (+7.6%) and WTI Oil (+5.4%) prices which benefitted from concern that new U.S. government staff appointments could spell trouble for the Iran nuclear deal. The majority of the remaining positive total returners last month were bonds. Spanish Bonds (+2.6%), Gilts (+2.0%), BTPs (+1.7%), Bunds (+1.1%) and Treasuries (+1.0%) all benefited from a (albeit fairly modest) flight to safety, as did Gold (+0.5%). EM representative GBI-EM was up +1.0% followed by EMBI returning +0.29%. Amid market volatility and spread widening CEMBI continues to print negative returns (-0.19%) for a second month in a row which confirms a change to a positive trend started in November 2016.

Among equities, Developed Markets (DMs) fell (-2.4%) during the month, with the U.S. losing (-2.6%), Europe (-1.5%), Japan (-2.9%) and Australia (-6.1%). Emerging Markets (EMs) (-2.0% in March, +1.1% YTD) marginally outperformed DMs as the USD weakened (-0.7%). In terms of EM equity sectors Cyclicals underperformed Defensives, with Real Estate (+1.2%) and Utilities (+1.1%) being the leaders while Consumer Discretionary (-6.1%) and Materials (-3.6%) lagged. Technicals (-0.5%), the star performer of 2017, also could not resist the decline as investors anticipate potential regulations on the sector as a fallout of the data privacy issues from Facebook.

In terms of Q1 performance, the S&P 500 partly recovered during the final days of March to be down (-0.8%) for the quarter. Quick reminder - we started this year started with a bang as well with the S&P up nearly 6% in January alone. Among other equity markets, Bovespa (+11.7%), MICEX (+8.3%), FTSE MIB (+2.8%), Portugal General (+1.3%), Hang Seng (+0.9%) and EM Equities (+1.4%) finished the quarter with a positive total return.

In bond markets, EM Bonds (+4.7%) led the way, while yields for Bunds (+0.3%) and Gilts (+0.2%) are not far off where they started the year, marking a bit of a 180 degree turn from the February highs. Treasuries (-1.2%) on the other hand have delivered a negative return.

In currency markets, the U.S. Dollar fell versus the Euro (-2.6%), Sterling (-3.6%), Yen (-5.7%) and several EM currencies despite the hawkish rate outlook from Fed officials. The Yen benefitted from the risk-off environment, while Sterling was supported by positive Brexit related developments. Commodity related currencies such as the Australian Dollar and New Zealand Dollar were losers, given weakness in industrial metals.

Commodity markets were overall positive return generators in Q1 due to Oil. The main catalyst was the appointment of a new U.S. national security advisor, who is a prominent opponent of Iran and Venezuela (thus negative for the Iran nuclear deal). Industrial metals such as aluminium and steel meanwhile fell sharply in February and March amidst protectionism measures, thus ending the quarter down -7.2%. Gold (+1.7%) benefitted from weaker investor sentiment while Silver (-3.4%) lost due to concerns over trade tariffs extending to other metals.

Portfolio Review

After holding up relatively well in the face of rates moves and equity correction earlier in the year, our portfolio detracted only slightly in the third week of March taking performance in negative territory, where it remained, though last week of the month saw start of a performance rebound.

Key performance drivers for the month were duration positioning and credit quality. Being positioned in

* Prior to 16 February 2018, Pioneer Funds - Emerging Markets Bond Short-Term

Amundi ASSET MANAGEMENT

more liquid names also contributed to downside mitigation.

While the Quantitative Easing (QE) environment suppressed volatility and led to a buy-the-dip mentality, Quantitative Tightening (QT), which we are now stepping into, is the opposite - i.e. higher volatility and sell-the-dip. Whilst QE led to favourable Technicals, in the form of too much money chasing too few bonds, QT typically leads to unfavourable Technicals and periods of too many bonds chasing too few investors. This change of market environment can bring a lot of uncertainty and we are partly seeing this in heightened volatility. To protect portfolios from rising yields, we are of the view that short duration positioning is sensible at this point in time. We are currently running 1.9 years duration and 2.45 years spread duration.

Looking at the performance contribution on a regional level, EMEA was a positive contributor, while Asia, Africa and Latin America detracted by a few basis points each. At country level our allocation to UAE, Kazakhstan and Argentina contributed the most, while key performance detractors were South Africa, Egypt, Turkey, Colombia and Thailand.

In terms of sectors, Financials, Real Estate and Energy led the way, Industrials and Healthcare were flat, leaving the bottom of the scoreboard to TMT and Consumer Staples.

It comes as no surprise that our allocation favours Latin America, EMEA and Africa, where we believe inflation risks are skewed to the downside, in contrast to Asian countries where we see bonds trading rich. Asian low yielders currently offer unattractive return prospects, in our view, therefore we allocate less than strategical allocation would suggest. As we see little value in low yielding countries, we continue looking for better opportunities in South Africa, Nigeria and Oman. During the period we have been reducing exposure to Russia, Ghana and Indonesia while adding risk in Mexico, South Africa and Oman.

Regionally, in Latin America, an uptick in commodity prices provided support, but increased political uncertainty in the coming months could weigh on potential returns. In CEEMEA, we are of the view that differentiation is key, as countries like Turkey and Russia are highly sensitive to geopolitical risks and in case of Turkey, fiscal imbalances.

Outlook

We remain constructive on the EM outlook although the U.S. rate outlook should continue to drive risk sentiment globally in the next few months.

When looking at EMs, we see that economies have been growing at a slower pace relative to trend, whereas much of the DM world is growing at a rate that is significantly above potential, in our view.

Economic fundamentals remain strong and many countries are at the earliest stages of the cycle (i.e. Brazil). We expect EMs on aggregate to grow more quickly than DMs in 2018-19. A stable to weaker U.S. Dollar, lower U.S. Treasury yields and a stable China are also likely to be supportive of EM assets looking ahead.

Reduced volatility for commodities and a weak U.S. Dollar are also supportive for the outlook of EM currencies, even though the evolution on trade policy has to be carefully watched. We reiterate our view that there is little upside from spread compression and EM bonds remain a carry trade story for 2018. Short-term debt offers, in our view, a good risk/reward balance. In our view, corporate debt is still favoured vs sovereign, thanks to the benign default outlook.

At country level, selection remains key: we look at Brazil (still good value with improving fundamentals) and Mexico (positive signals from NAFTA agreement), and are more constructive on South Africa recently (based on positive reforms due to a changing political landscape). Hedging strategies (where spreads are too tight) could be considered to mitigate risk at this stage.

Important Information

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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