Monthly Portfolio Update

*Amundi Funds II – Pioneer U.S. Fundamental Growth**
31 July 2018

Equity

COMMENTARY

Market Review

Strong second quarter earnings results contributed to positive returns for US stocks for the month of July, with the S&P 500 returning 3.7%. However, the performance of stocks in the month diverged from year-to-date market trends in two material ways. First, value outperformed growth, as evidenced by a 4% return for the Russell 1000 Value Index during the period versus a 3% return for the Russell 1000 Growth Index. Second, the high beta, high valuation stocks that have contributed much of the market's gains year-to-date lagged within the growth universe. Netflix, for example, declined 14% during the month after returning 104% year-to-date through June. Similarly, Facebook fell 11% during the month due to disappointing second quarter earnings results and company guidance suggesting margin pressure in the future.

Though it is too early to tell whether this shift in market leadership will continue, we believe the year-to-date trend of rewarding high beta, high valuation stocks at expense of the broader universe of more reasonably priced stocks is unsustainable.

With respect to sector performance during the period, Information Technology (+7), Industrials (+5%), and Consumer Staples (4%) performed the best, while Energy (-2%) was the only sector to show a negative return for the month.

Portfolio Review

The Portfolio outperformed the 2.94% return of the Russell 1000 Growth Index in the month of July. Outperformance in the month relative to the Index was mainly due to stock selection in the Consumer Discretionary, Information Technology, and Health Care sectors. In the Consumer Discretionary sector, outperformance was driven by Netflix (not held in the portfolio), which declined on slowing user growth. Within the Information Technology sector, the outperformance was due in part to not owning Facebook, which dropped sharply after reporting slowing U.S. user growth and guiding for increased costs and declining margins. In Health Care, the Portfolio benefitted from its investment in Thermo Fisher Scientific, which rose on the back of strong earnings and delivering its third straight quarter of high single-digit organic growth. Stanley Black & Decker also contributed after reporting strong earnings and revenue growth as their tools segment benefits from the implementation of the Craftsman brand. O'Reilly Automotive rallied after reporting strong same store sales and increased earnings outlook for 2018.

Stocks that detracted from performance in the month included Electronic Arts, which reported less than expected revenues within live services. Our long-term thesis remains intact given the strong release schedule and continued growth of the videogame industry along with our belief that the company will continue to generate strong returns on growth capital. Broadcom fell on the back of the proposed acquisition of software company – CA Technologies. We believe Broadcom has sustainable competitive advantages and can generate strong returns on growth capital in the future. Shares of Accenture fell along with many stocks in the Technology sector. However, we believe the company's earnings growth will be more stable than most technology stocks and will benefit from increased IT Spending and cloud migration.

Offsetting positive stock selection in part was sector allocation, which was modestly negative due to the Portfolio's underweight of the industrials sector, which outperformed the Index during the month.

Recently added and deleted positions

There were no new additions or deletions to the Portfolio during the month.

Outlook

Despite very strong economic data in the US and exceptionally good underlying earnings growth, we are somewhat cautious on equities, particularly for

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*Prior to 16 February 2018, Pioneer Funds – U.S. Fundamental Growth

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stocks with high growth rates where valuations have increased significantly. Some cracks may have appeared for this group of high expectation stocks, as both Facebook and Netflix both declined during the month. More broadly, we think market volatility will remain somewhat elevated as trade negotiations continue, the Federal Reserve remains on a path of tightening monetary policy, and some emerging markets remain under pressure from volatile currencies and slowing growth.

Ultimately, we believe rising interest rates could ultimately cause the economy to slow late this year or more likely in 2019. A slowdown in growth may lead investors to take a more conservative approach toward risk as credit spreads could widen and the equity market may begin to favour stocks with greater earnings stability, high profitability, and low levels of debt with more reasonable valuations. These characteristics are what we emphasize when constructing the Portfolio.

In terms of positioning, the Portfolio's largest overweight is in the Financials sector where we have several holdings with wide moats, high returns on capital, solid growth prospects and attractive valuations. Though the Portfolio has less exposure than the benchmark to the high growth, high valuation stocks that have led the market, we believe these stocks are vulnerable in a rising rate environment and may underperform during a market correction.

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