Quarterly Portfolio Update

Pioneer Funds – Global Equity Target Income
29 December 2017

Equity COMMENTARY

Market Review

December was another positive month for global equities, with the broad market adding over 1% in U.S. Dollar terms. While December was a reasonably quiet month in terms of newsflow, the confirmation of Trump's tax reform in the U.S. being approved, and a continuation of the robust global economic data helped to buoy sentiment. Looking sector by sector, we saw a return to the more cyclical areas outperforming during the month with Materials and Energy among the best performing areas. On the other side, Utilities and Healthcare lagged.

Reflecting on the final quarter of 2017, global equities added over 5.5%, led higher by Information Technology and Materials. Given the strong performance of the asset class in 2017, valuations are clearly less attractive. As a result, the most recent Q3 earnings season was much in focus as investors demanded to see further evidence of robust earnings delivery to justify share prices. In general, it was another very positive results season in both the U.S. and Japan. Focusing on Europe, while the earnings season was quite robust from an underlying EPS viewpoint, the euro strength we have seen has been a clear headwind for top line growth. For us, it is important to focus on the drivers of the euro strength, rather than the knock on impact at this point. The ongoing economic recovery which we have seen this year remains firmly in place, and while other regions are experiencing geo-political uncertainties, Europe has perhaps been viewed as a haven in recent months. We continue to believe that this should be seen as a positive, and a key support for risk assets in the region. From a valuation perspective, while not cheap in absolute terms, the underperformance in November has made the relative valuation a little more compelling, and we maintain our constructive view on Europe as we enter 2018.

Portfolio Review

The final quarter of 2017 was a positive one for the Portfolio, both in terms of income generation and market participation. We are pleased to confirm, that as 2017 drew to a close, we met our income target of 7% for the full year.

As a reminder, the primary objective of this Portfolio is to deliver its income objective. The Portfolio also seeks to provide investors with a degree of market participation. Q4 was a positive period in this regard with the Portfolio delivering over 3.4% in U.S. Dollar terms, further extending its year to date gains.

As we entered the final quarter of the year, and given the success of our income generation, we began to focus a little more on balance between income generation and market participation. Reflecting this, we cautiously increased the cyclicity of the Portfolio.

We added a new position in U.S.-listed apparel and home goods retailer TJX. Ultimately, its discount model should not be overly impacted by the threat of online players like Amazon becoming ever more present. Underlying growth has remained robust supporting cash flow, and we see the valuation as being quite attractive. We also added some more exposure to Japan, by adding a position in Japanese financial Sumitomo Mistui Financial. We see the company as being a natural beneficiary of the improving underlying economic trends in Japan given its sensitivity to the economy. Additionally, the company should be a beneficiary of an increasing interest rate cycle in the U.S. should this materialise.

We added international telecommunication services company Vodafone to the Portfolio in October. The share price has been under pressure in recent months and we viewed the current valuation as quite an attractive entry point into the name. The dividend yield is attractive (>5%) and enjoys good coverage given the strong cash flow generation of the business. Staying in Europe, we added French train maker Alstom. As well as liking the company's underlying business model, and its exposure to the European economic recovery, the company is also expected to pay a special dividend, which is clearly a key pillar of our investment case.

On the other side, we sold out of our holding of Italian automaker Fiat. While we see upside from a valuation perspective, we felt it prudent to take some profits

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from this highly cyclical name as we move into year-end. We sold out of our holding of U.S.-listed apparel company Tapestry (formally Coach). The company's new business strategy has become more of a conglomerate of luxury brands, and we believe that this change in business model has led to an increased capital allocation risk, and we prefer to play the recovery of the U.S. consumer through other discretionary names such as L Brands.

In October, IT and telephony hardware manufacturer Nokia issued some disappointing results and guidance which dampened sentiment towards the name. While we still believe in the longer term investment case, there is now more uncertainty in the near term and we felt it prudent to sell the positon following a meeting with our analyst. We also sold our position in U.S. defence contractor Raytheon as we saw more attractive investment cases in other areas of the market.

We were more active in our option writing activity in Q4, with most of the activity on the call side. We selectively wrote puts on those names where we have the highest conviction in the underlying investment case which contributed positively to the income generation within the Portfolio.

Top 10 Holdings	Portfolio Weight
Microsoft	2.8%
Citi Group	2.4%
TSMC	2.4%
Sumitomo Financial	2.2%
Deutsche Telekom	2.1%
Royal Dutch Shell (A)	2.1%
Imperial Brands	2.1%
GlaxoSmithKline	2.1%
Daimler	2.1%
Vodafone	2.0%

Source: Amundi Asset Management as at 31.12.2017

Outlook

As we enter 2018, we maintain our constructive outlook for global equity markets. 2017 proved to be a very positive year for the asset class, and as a result, valuations appear quite full – especially in the US.

Our view remains that investors will demand to see the continuation of the positive EPS growth momentum to justify share prices. For us, the key supports remain firmly in place, with a more positive economic backdrop supporting the delivery of earnings. Regionally, we continue to prefer Europe as valuations are less stretched, and the underlying economy is showing some encouraging signs. We have read much analysis about the potential impact a stronger euro could have on corporate profitability, and ultimately on the European market.

Our view is that, while this could, of course, be a potential headwind, the underlying reasons for the strengthening euro should be viewed as a positive. Within the Portfolio, we remain cognisant of the potential for market rotations, and therefore, as we did throughout 2017, we see the need for balance within Portfolios. We continue to focus on idiosyncratic investment cases which offer us the potential for reliable earnings growth and sustainable dividends over the medium-term.

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