

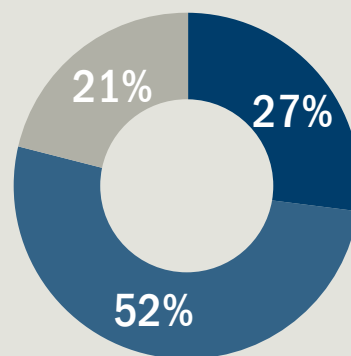
# » THE INCOME DILEMMA: SEEKING SUSTAINABLE INCOME IN AN ERA OF PARADIGM SHIFTS



## Low Yields

We estimate that around 80% of developed market government bonds currently trade at negative real yields and believe this trend will continue despite a gradual increase in interest rates.

G7 Government Bonds - Breakdown by Yield to Maturity <sup>1</sup>

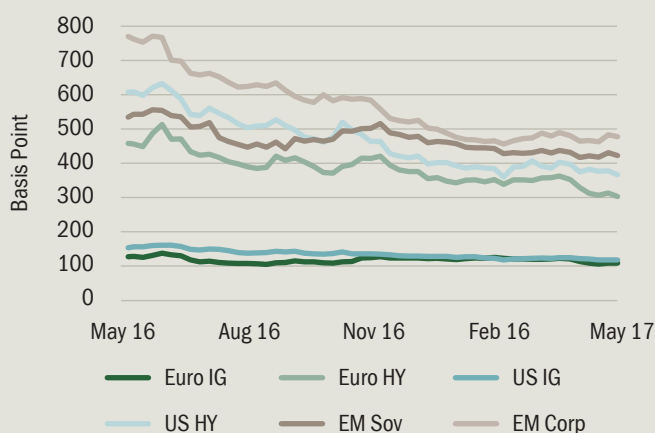


■ Yield above Inflation ■ Yield below 0%  
■ Yield between 0 and Inflation

## Tighter Credit Spreads

In their hunt for yield investors have moved higher in the risk spectrum towards lower graded bonds. This trend, combined with still accommodative monetary policy, has resulted in further spread tightening in credit markets.

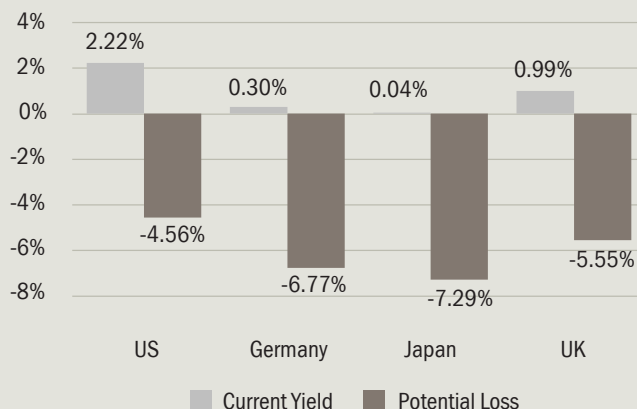
Spread Tightening in Credit <sup>2</sup>



## Risk for Fixed Income

Even a small rise in interest rates could pose significant challenges to bond investing, which has been a traditional source of income. A 0.5% rise in yields on 10 year bonds over the next 6 months could result in significant capital losses.

10 Year Yields and Impact of a 0.5% Rise in Bond Yields on Capital <sup>3</sup>  
Valuations with Investment Horizon to December 31, 2017

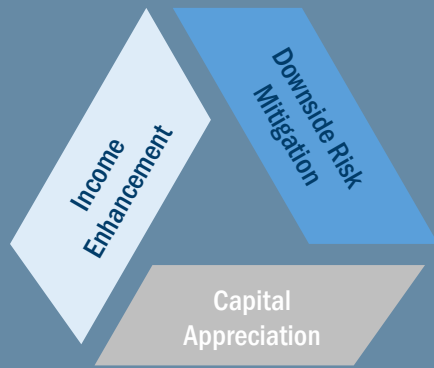


Source: Pioneer Investments analysis on Bloomberg. Data as at May 31, 2017. Please see accompanying Blue Paper for more details. **1** Analysis on the Yield to Worst of each constituent of the BoA Merrill Lynch All Maturity All G7 Government Index vs the reference country headline inflation. **2** Merrill Lynch indexes. Euro IG = ML Euro Corporate, Euro HY = ML Euro High Yield, US IG = ML US Corp Master, US HY = ML US HY Master II, EM Sov = ML Global EM Sovereigns, EM Corp = ML Global EM Corp. It is not possible to invest in an index. **3** The calculation shows the total returns pre-tax based on an interest shock analysis, on generic 10-year government bonds, supposing a shock of 50 basis points with an horizon from May 15, 2017 to December 31, 2017. This example represents a hypothetical illustration of what potentially happens to Government bond prices when yields rise. It does not represent a specific investment. This hypothetical example is for illustrative purposes only and does not represent any particular Pioneer product or strategy. This effect only applies if the bonds are sold prior to maturity.

### Important Information

Unless otherwise stated, all information contained in this document is from Pioneer Investments and is as of May 31, 2017. The views expressed regarding market and economic trends are those of the author and not necessarily Pioneer Investments, and are subject to change at any time based on market and other conditions and there can be no assurances that countries, markets or sectors will perform as expected. These views should not be relied upon as investment advice, as securities recommendations, or as an indication of trading on behalf of any Pioneer Investments product. There is no guarantee that market forecasts discussed will be realized or that these trends will continue. Investments involve certain risks, including political and currency risks. Investment return and principal value may go down as well as up and could result in the loss of all capital invested. This material does not constitute an offer to buy or a solicitation to sell any units of any investment fund or any services. Pioneer Investments is a trading name of the Pioneer Global Asset Management S.p.A. group of companies.

# » SEEKING TO SOLVE THE DILEMMA AROUND THE TRIANGLE OF INCOME INVESTOR GOALS

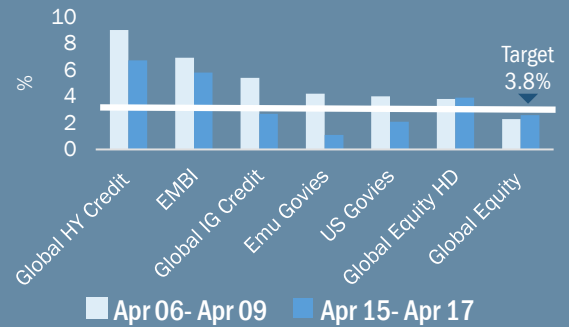


## Income Enhancement

After the Great Financial Crisis of 2008, the income available in the market shrunk and the role of different asset classes as income producers has changed over time. We believe it's time to take a more active approach and explore a wider range of investment opportunities across different asset classes.

### Asset Class Yield vs 3.8% Target<sup>4</sup>

Median Yields on Apr 06- Apr 09 and 2 Years for Apr 15- Apr 17



Not just about #income. #Downside risk management and #capital appreciation are also factors to consider when designing income solutions.

## Income and Downside Risk Mitigation

Investing for income requires a constant assessment of the changes in the risk environment to identify how the risk profile of each asset class changes over time. Protecting portfolios from losses is extremely important for income investors in order to preserve the potential to generate income in the future.

Risks to Watch

Market Risk

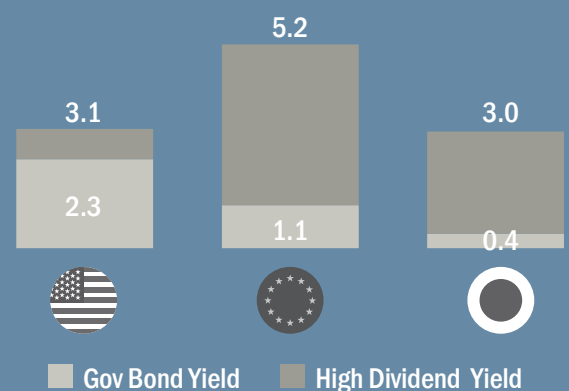
Credit Risk

Liquidity Risk

## Income and Capital Appreciation Potential

In our view, equities can provide higher potential capital appreciation than other asset classes over the next few years, but are subject to additional risk. While investors have neglected equity investing as a source of income, in a period of ultra-low interest rates equities, and particularly, stocks able to deliver sustainable high dividend yields, can be a valuable source of income.

### Dividend Yield vs 10 Y Gov. Bond Yields (%)<sup>5</sup>



Source: <sup>4</sup> Pioneer Investments analysis on Bloomberg. Data as at April 30, 2017. US Govies= JPMorgan GBI US, EMU Govies = JPMorgan GBI EMU, Global IG Credit = Bloomberg Barclays Global Aggregate Corporate Bond, Global HY Credit =Bloomberg Barclays Global High Yield Bond, EMBI = JPMorgan EMBI Global Diversified Blended, Global Equities = MSCI World, Global Equities HD = MSCI World High Dividend Yield, Target = 3.8% that is the 20 years average yield on the US Treasuries. The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msicbarra.com). <sup>5</sup> Pioneer Investments on Bloomberg. Data as of May 31, 2017. Dividend Yields are the 12 months dividend yields for the local MSCI indexes, High Dividend Yields are the 12 months dividend yields for the local MSCI High Divides indexes, Govt Bond Yields are the Yields of the local Generic 10 Year Government Bond.