Monthly Portfolio Update

Pioneer Funds – European Equity Value

31 August 2017

Equity

COMMENTARY

Market Review

The broad European equity market lost approximately 1% in August in what was a seasonally quiet month for the asset class. Looking more closely at sector performance, in August, we saw a preference for the more defensive sectors with Utilities and Real Estate outperforming, while Financials lagged. Reflecting this, we saw value underperform, with the MSCI Europe Value losing c.1.5%. This more cautious market environment appeared to be fuelled by the increasing investor nervousness around the ongoing geopolitical situation in North Korea. Furthermore, investors continue to rotate out of the “Trump reflation” trade as the Trump Administration’s credibility to enact its pro-growth policies continues to be called into question. With volumes in the market seasonally light, the impact of the more negative sentiment appeared to be magnified.

More positively, August drew to a close what was a generally encouraging earnings season for European corporates – albeit not as stellar as that seen during the first quarter of the year. From a sector perspective, cyclical names outperformed the defensives in terms of both revenues and earnings, with Banks leading the way. Another interesting point to takeaway from the most recent reporting season has been the outperformance of domestically focused Euro area companies in comparison to their export orientated peers, pointing to further evidence of the continued economic improvement within Europe. We continue to believe that the key supports remain in place; with robust earnings growth, a more stable political backdrop and continued inflows helping to bolster sentiment as we move into the final months of the year.

Portfolio Review

The Portfolio slightly underperformed its benchmark[1], the MSCI Europe Value, in August, but remains significantly ahead year-to-date. At a sector level, the Portfolio had a positive contribution from Financials and Healthcare, while in contrast, Utilities and Consumer Discretionary detracted.

Our structural underweight position within Financials was a tailwind for the Portfolio as the sector underperformed. Given the more volatile market environment experienced in August, our focus on the higher quality names was rewarding. Against this backdrop, our holding of Dutch-listed banking group ABN, and Nordic bank Swedbank both outperformed given the solidity of their respective business models.

The Portfolio lost some performance within the Consumer Discretionary sector in August. Our holding of the UK-listed international media company WPP detracted The company reported disappointing first half results and downgraded their growth guidance for the full year. This has been driven by a combination of increased competition from alternative advertising sources such as social media platforms, as well as a reduction in advertising spend from major companies. While valuation remains very attractive, these results dampened sentiment towards the media company.

Within Healthcare, our holding of Swiss-listed pharmaceutical company Novartis outperformed. The company reported a solid set of Q2 results which showed sales meeting consensus expectations, while good cost control allowed for a beat at earnings level. Furthermore, the company reiterated its FY guidance, and with the help of a weaker U.S. Dollar, provided additional support for the share price in recent weeks.

Oil prices remained under pressure in August, which was a clear headwind for the energy related names. Against this backdrop, and despite releasing good Q2 results at the end of July, our holding of oil services company TechnipFMC detracted given its sensitivity to the oil price.

Our underweight position within Utilities, cost the Portfolio some relative performance. Considering the increased volatility we saw, investors favoured the more defensive names in the market.

In Consumer Staples, our holding of supermarket operator Ahold Delhaize detracted. Despite delivering fairly solid Q2 results at the beginning of the month,

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ASSET MANAGEMENT

investors remain cautious about the operating environment in the U.S, with increased competition from online players such as Amazon and discount chains such as Lidl, which continue to gain market share.

Finally, the Information Technology sector was a source of positive returns for the Portfolio. Our holding of IT consultancy company Cap Gemini was a rewarding position, following the release of positive Q2 results at the end of July. Organic growth momentum remained robust, coming in at 2.9% which was ahead of consensus expectations. The company maintained its FY2017 guidance which provided further support for the share price.

Sector Allocation	Portfolio Weight	Benchmark Weight	Delta
Consumer Discretionary	14.39%	6.29%	8.10%
Consumer Staples	2.90%	2.91%	-0.01%
Energy	11.50%	12.80%	-1.30%
Financials	24.78%	37.11%	-12.33%
Health Care	9.87%	10.35%	-0.48%
Industrials	12.08%	7.56%	4.52%
Information Technology	3.56%	1.19%	2.37%
Materials	5.86%	6.35%	-0.49%
Real Estate	0.00%	2.30%	-2.30%
Telecommunicat ions	7.33%	6.21%	1.12%
Utilities	2.48%	6.93%	-4.45%

Source: Amundi Asset Management as at 31 August 2017
Benchmark: MSCI Europe Value

Outlook

Despite a weaker tone in August, we continue to remain constructive in our outlook for the asset class as we move into the latter half of 2017. Both global and European macroeconomic indicators are continuing to point to improved fundamentals. This has supported earnings growth for European corporates as highlighted in the most recent earnings season. The more tepid market environment we have seen in recent months coupled with the continued upward trend in earnings has helped to dampen valuations, with the MSCI Europe now trading at a 12 month forward P/E of c.14.5X. While this is above the long term median valuation, we believe that we can see further upside from here provided that companies continue to grow their earnings. Within our Portfolio, we are continuing to seek balance, recognising that the potential for sectorial rotations remain prevalent within the market. We continue to focus on names which can deliver reliable earnings growth, which we continue to believe could be the primary driver of further upside from here.

Important Information

Unless otherwise stated all information contained in this document is from Amundi Asset Management and is as at 31 August 2017.

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