View from the 20th Floor

Pioneer Funds – Multi-Strategy Growth
31 January 2018

MULTI-STRATEGY COMMENTARY

"There are risks and costs to action. But they are far less than the long range risks of comfortable inaction"

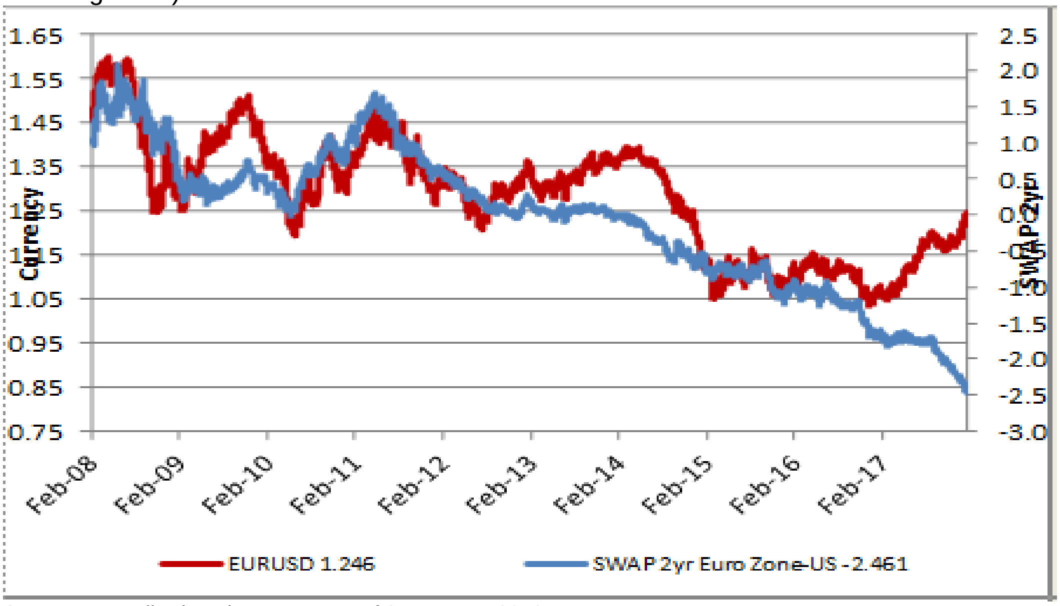
– John F. Kennedy

PERSPECTIVE	
	Welcome to our first "View from the 20th Floor" commentary of 2018. The introduction of MIFID II has cramped our writing style somewhat, and we are no longer allowed to comment in detail on short-term performance, or contributors to short-term performance. We apologise in advance, but our hands are tied. This month we are also introducing a new section – "Ask the PM". Here we will endeavour, each month, to answer a question that has either been sent to us or that we have been asked when meeting clients. We hope you find this feature useful and would appreciate any feedback you may have.
Unanswerable Questions	Talking about questions, in 2010 the website "Ask Jeeves" (which answers 16 million questions a month) listed it's Top 10 Unanswerable Questions – for which there is no simple answer. Based on more than one billion questions that the site had been asked in the previous decade, the list was as follows: 1. *What is the meaning of life?* 2. *Is there a God?* 3. *Do blondes have more fun?* 4. *What is the best way to lose weight?* 5. *Is there anybody out there?* 6. *Who is the most famous person in the world?* 7. *What is love?* 8. *What is the secret to happiness?* 9. *Did Tony Soprano die?* 10. *How long will I live?* When we were kids, another favourite past-time was trying to solve conundrums and riddles, most of which were fairly silly but quite funny – "if I eat myself, will I weigh twice as much as I do now or will I disappear?" or "What's another word for thesaurus?". And then there were the brainy ones – "I have keys but no locks. I have a space but no room. You can enter, but can't go outside. What am I?" (We will reveal the answer at the end of the commentary). In financial markets, the three "almost" unanswerable questions that we get asked in meetings are; Why is the U.S. Dollar so weak, are bond yields finally in a bear market, and are equities overvalued?
Why have higher U.S. interest rates and bond yields not supported the U.S. Dollar?	Taking the U.S. Dollar question first - the confusion appears to be why higher interest rates and bond yields have not supported the U.S. Dollar? At a time when the U.S. Federal Reserve has hiked its Federal Funds rate 3 times in 2017 (and 5 times in total since end-2015), and with another 3 rate hikes expected by Amundi in 2018 - why has the Euro appreciated by almost 20% against the U.S. Dollar since its low in December 2016? And it's not just a case of Euro strength – the broader US Dollar Index has depreciated by almost 14% over the same period.

Amundi ASSET MANAGEMENT

Divergence between US yields and EUR/USD exchange rate

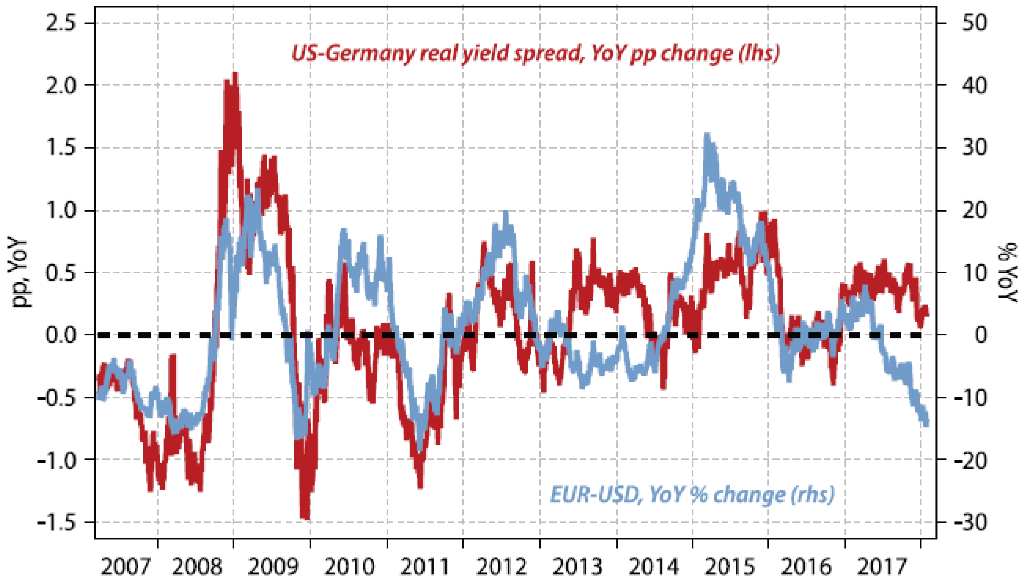
In the very long-term, it is generally accepted that currencies will gravitate towards their Purchasing Power Parity ("PPP") level – in simple terms this means that a similar item should cost the same in two different countries after accounting for the exchange rate. According to various bodies such as the World Bank and the IMF, the current estimate for PPP for EUR/USD is between 1.25-1.33. So on this metric the U.S. Dollar still has further room to fall. But many investors tend to focus on shorter-term measures of valuation. Interest-rate differentials used to be considered a good guide to exchange rate movements, but have recently diverged quite significantly from the movement of the EUR/USD rate (see chart below of the U.S./German 2-year interest rate swap differential compared to the EUR/USD exchange rate).



Source: Amundi, Bloomberg. Data as of 31 January 2018.

Breakdown in relationship between real yields and EUR/USD exchange rate

Some market commentators have recently pointed to real yields (the difference between nominal yields and inflation rates) as being a good indicator, and the chart below does indeed suggest that there is some kind of loose correlation between the two - but again, the relationship has broken down in recent months (see chart below).



Source: Gavekal/Macrobond, Amundi. Data as 31 January 2018.

Current U.S. Dollar weakness primarily driven by three factors

Our team believe that the current U.S. Dollar weakness is primarily driven by growth differentials, relative monetary policy settings and investment flows. The U.S. is experiencing one of the longest economic expansions on record, and the odds are that the cycle may roll over at some stage in the next 12 months (although the recent passage of the tax reform package may prolong the expansion somewhat). However, the European economy is still accelerating, and whilst 2018 will probably mark the high point in the economic expansion, we expect that 2019 will still see robust growth in Europe. So economic momentum favours the Euro-area and the Euro currency. In terms of relative monetary policy settings, we know that the Fed expect to hike rates another 3 times in 2018, and 2 more times in 2019. But the market doubts the Fed's ability to implement this number of hikes, especially if the economy is beginning to slow. On the other hand, the ECB is signalling that any removal of monetary policy accommodation will happen slowly – according to ECB President Mario Draghi at the ECB press conference in January 2018, "an ample degree of monetary stimulus remains necessary". But the risk is that European growth is stronger than expected and inflation rises quicker than expected - causing an earlier-than-expected tightening of monetary policy, which should support the Euro currency. Finally, most investors have been overweight U.S. assets and underweight Euro-area assets since the Global Financial Crisis, and the recent appreciation of the Euro will be causing performance issues for those investors. Therefore any covering of these short positions should also help the Euro.

U.S. Dollar should continue to face downward pressure

In short, we still believe that the U.S. Dollar will face further downward pressure, but perhaps the bulk of its depreciation is over. We also think that the Japanese Yen has become the currency of choice in "risk-off" periods, so we are happy to build long Yen positions against the Euro and Australian Dollar. We maintain a small long USD position to protect against any Emerging Market sell-off or volatility.

Global bond yields break important trendlines

Regarding the second question, for over 18 months now, investors have been expecting a bear market in global government bonds. And to be fair, yields have moved higher, but perhaps not as quickly as investors had expected. The U.S. 10-year Treasury hit a low in yield of 1.40% in June 2016, around the same time as the German 10-year bond also bottomed at -0.20%. Since then, the U.S. 10-year yield has risen 135bps to 2.75%, and the German 10-year yield has risen by 90bps to 0.70%.

But there were two notable events towards the end of January 2018 that signalled this upward move in bond yields was the "real deal". Firstly the U.S. Treasury 10-year bond yield broke a 30-year downtrend line by closing above 2.66% (see chart below). This trendline has acted as strong resistance in years gone by, yet looks like it has been comprehensively breached this time.

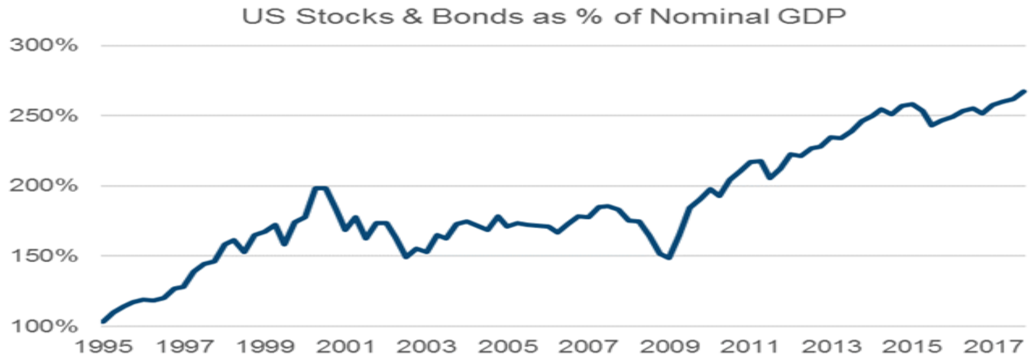
Source: Bloomberg, Amundi. Data as of 2 February 2018.

Secondly, for the first time since September 2015, German 5-year Bund yields traded with positive yields - having hit a low of -0.58% in September 2016.

Regular readers of our commentaries will know that we have long been cynical of the very low level of global government bond yields, and for that reason we have reduced our interest rate duration exposure to almost zero by mid-2017. So the rise in yields has not hurt our Portfolios. Our team expect that yields will continue to slowly climb throughout the rest of 2018, but do not expect a violent or large sell-off. We anticipate that 10-year U.S. yields above 3% would begin to become appealing once again.

Shift to late cycle should support equities

Finally, are equity markets overvalued? Again, our team believe that a shift from asset reflation to late cycle should help to push Price/Earnings Ratios higher, as the late cycle phase is the most benign for market re-rating. Arguably this re-rating has already happened in the U.S. and Pacific, whereas in Europe and Japan there is still some room for re-rating. We will show one chart here that highlights the strong appreciation of both U.S. bond and equity markets since the Global Financial Crisis, and also highlights the outperformance of both asset classes compared to the growth of the U.S. economy over the same period.



Source: Financial Times, Amundi. Data as of 31 December 2017.

Some tactical indicators are flashing warning signals

We do acknowledge that at current levels, most equity markets are full valued, and recently some tactical indicators are flashing warning signals. So we remain cautiously optimistic on equity markets, but we are replacing cash exposure with option exposure. This means that in the event of a market correction, our overall equity exposure will be reduced quite quickly as the value of the options falls.

Finally – the answer to the riddle is a keyboard!!

PERFORMANCE	
Strong start to the year	Equities had a bumper month, with all major markets bar the UK FTSE100 generating strong positive returns, with Europe and Japan lagging the other markets. Continued good economic momentum, low inflation, passage of the U.S. tax reform bill, and signals from Central Banks that the road to normalisation of monetary policy will be long and slow, were all supportive for equity markets. Politics again remained to the fore, with good progress made on forming a German grand coalition government. Concerns over the impact of a stronger Euro & Sterling on 2018 earnings were mainly responsible for the underperformance of both Europe and the UK.
Good month for Equities	The S&P500 returned 5.7% during January with technology stocks again being one of the best-performing sectors. Indeed, the best 3 individual stocks in the S&P500 were Netflix, AMD and Seagate Technology. We have noted previously that the S&P has seen a positive total return for the last 13 months - the first time that this has happened in the last 90 years. GDP numbers were strong (although boosted by consumption and a big fall in the savings rate), and whilst the headline monthly payroll numbers were a little weak, the unemployment rate was a lowly 4.1%. In Europe, the Euro Stoxx 50 rose 3.0%, driven by strong international economic and market momentum. Q4 2017 Eurozone GDP was reported at an annualised rate of 2.7, and the first print of January 2018 Purchasing Manager Indices suggest that the momentum has carried over in to Q1 2018 - despite the strength of the Euro currency. Inflation continues to struggle to move any higher, with the January 2018 headline number falling from 1.4% to 1.3%, and the core rate remaining stuck at 1%. Meanwhile, ECB President Draghi was quite dovish at the monthly press conference, noting that accommodative monetary policy would remain in place for some time yet. The Japanese Topix Index was a relative underperformer, only rising 1.0% in January. Good earnings from Japanese companies have highlighted the relative attractiveness of the Japanese stock market - earnings per share grew by 30% in 2017, and a similar performance is expected next year. Emerging Markets (EM) equities, (as measured by the MSCI EM Index) again performed very well, rising by 8.3% in USD terms. Latin American markets led the charge, with Europe and Middle Eastern markets being relative laggards, but still up over 6%.
Bond Markets suffered	Global bond markets had one of their worst months in recent years, with substantial yield rises in most major markets, and some major technical trend lines being breached. “Bear-flattening”, where short-dated yields increase by more than long-dated yields, was again the dominant theme. In the U.S., 2-year yields rose by 26bps whereas 30-year yields rose by 20bps, whilst in Germany 2-year yields rose by 10bps and 30-year yields rose by 7bps. It does appear that pressure is building for a break-out to the upside, although markets appear reluctant to push yields too high, too fast.
Credit outperformed Government Bonds	Investment-Grade credit slightly outperformed government bonds during January with the Euro Investment Grade iTraxx Main Index falling 1bps to 44bps, but the wider Bloomberg Barclays Euro Aggregate Corporate index falling 0.27%. High Yield markets were mixed on the month, but again Euro High Yield underperformed U.S. High Yield with the Euro High Yield index falling -0.35%, whilst the U.S. High Yield index rose 0.6%. Most Commodities had another strong month with the CRB Index rising 1.8%, again mainly driven by a continued rebound in the oil price. West Texas Intermediate finished January up 7.1%, and has now risen over 25% in the last 3 months. Brent actually underperformed - rising 3.0%, and being up 21.8% over the last 3 months. Copper gave back some of its recent gains by falling over 1.7%, whilst Gold was up 3.2%.
U.S. Dollar continued to depreciate	The U.S. Dollar resumed its downward trend in January with the Dollar Index (a trade-weighted basket of currencies against the U.S. Dollar) falling 3.3% during the month, and now down nearly 12.8% in the last 12 months. The EUR/USD rate moved from 1.2005 to 1.2415,

	while the USD/JPY rate moved from 112.70 to 109.20. The Euro depreciated against the British Pound, which had a strong month despite ongoing difficult Brexit negotiations. With the U.S. Dollar weakness, EM currencies finished the month higher. The JP Morgan Emerging Markets Currency Index rose 2.82% in January; with the Columbian Peso and the Mexican Peso performing strongly.

Figure 3
Market Performance in January 2018

Equities	Return (%)	Fixed Income	Return (%)
MSCI World Index - Daily, TR, Net USD	5.28%	JPM GBI EMU 3-5 Years - Local	-0.43%
S&P 500 TR Index	5.73%	JPM GBI EMU 5-7 Years - Local	-0.72%
EURO STOXX 50 NR Index	3.09%	JPM Emerging Markets Bond Index	-0.50%
FTSE 100 TR Index	-1.96%	**Fixed Income - Corporate**	**Spread**
DAX TR Index	2.10%	iTraxx Europe Main Generic 5yr	-1.2bps
FTSE MIB NR Index	7.79%	iTraxx Europe Xover Generic 5yr	+4.6bp
Topix NR Index	1.06%	**FX**	**Return (%)**
MSCI Emerging Markets - Daily, TR, Net USD	8.33%	EUR/USD Spot	3.41%
Commodities	**Return (%)**	EUR/GBP Spot	-1.50%
TR/CC CRB (Commodity Futures Index)	1.81%	EUR/JPY Spot	0.19%
Oil - West Texas	7.13%	EUR/CHF Spot	-1.22%
Oil – Brent	3.01%	US Dollar Index Spot	-3.25%
Gold Spot	3.23%	JPM EM Currency Index	2.82%
Copper Spot	-1.78%		

Source: Bloomberg as at 31 January 2018.

The Portfolio delivered a positive return in January 2018

Figure 4
Portfolio performance to 31 January 2018

	YTD
Pioneer Funds – Multi-Strategy Growth - "A" Class	2.56%

Source: Amundi Asset Management as at 31 January 2018, Class A EUR ND net of fees. Past performance does not guarantee and is not indicative of future results.

Ask The Portfolio Manager?

Q. Do you have drawdown management levels on all investment ideas in the portfolio?

A. No. We apply drawdown management levels to individual investment ideas in our Satellite or “Relative Value” pillar. We don’t apply them to the individual ideas in our Macro Strategy or “Our View of the World” pillar as these ideas or themes are meant to be longer-lasting or more structural in nature.

January 2018 Performance Contribution

- Our **Satellite Strategies** were the main drivers of performance in January. Within this group, the best performing areas were the **Equity** strategies, helped by good returns from two short-term trading strategies, as well as our US/EU Relative Value position. Our **Spread** strategies also contributed handsomely, with strong performance from our High Yield, Lower Tier 2 and Hybrid Financials positions. Finally, our **Interest Rate** strategies did well, mainly due to our underweight duration positions in major global bond markets, such as Europe, U.S. and the UK.
- Our **Macro Strategy** also had a stellar month, with the **Thematic** strategies being the best performers. Here, reflecting the sectoral performance of major equity markets, our **Internet of Things** and **Robotics** themes were the biggest contributors to overall performance, closely following by **Asian Gaming**. Within the **Macro Strategy**, again reflecting the performance of major markets, the best strategies were our long **U.S. Equity**, long **EUR Equity** and long **EM Equity** positions. As has been the case in recent months, our **FX Majors** strategy was an underperformer due to its long U.S. Dollar position.

- Our **Selection** strategy also made a contribution to overall performance, as our stock selection and sector selection both did well. Our Senior Financials and Non-Financial Corporate strategies generated all of the out-performance.
- Most of our **Macro Hedging** positions were flat during January, with the exception of our **Equity Volatility** strategy, which was responsible for all of the underperformance. Although there was a pick-up in volatility into month-end, the low levels of volatility earlier in the month caused this investment idea to underperform.

Best Performing Strategies in January

Figure 6[1]
Best Performing Strategies

Five Best Performing Strategies	
Investment Pillar	**Theme**
Satellite – Equity	Trading ST2
Macro Thematic	Internet of Things
Macro Strategy	EM Equity
Macro Thematic	Robotics
Macro Thematic	Japanese Reflation

Source: Amundi Asset Management. Data as at 31 January 2018.

Worst Performing Strategies in January

Figure 7
Worst Performing Strategies

Five Worst Performing Strategies	
Investment Pillar	**Theme**
Macro Strategy	Non-EUR Duration
Macro Strategy	FX Majors
Macro Hedging	Equity Volatility
Macro Thematic	Energy Revolution
Satellite - Rates	EM Duration

Source: Amundi Asset Management. Data as at 31 January 2018.

Long-Term Performance

Figure 8
Portfolio Performance

As at 31 January 2018	YTD (%)	1 Year (%)	3 Years p.a. (%)	5 Years p.a. (%)	260 Day Vol. (%)	Sharpe Ratio (3Yr)
Pioneer Funds –Multi-Strategy Growth “A” Class	2.56%	5.22%	3.10%	5.14%	4.47	1.33

Source: Amundi Asset Management as at 31 January 2018, Class A EUR ND net of fees. Past performance does not guarantee and is not indicative of future results.

Risk Profile

Figure 9
Portfolio Risk

Risk Profile: Pioneer Funds – Multi-Strategy Growth

	31/01/2018	31/12/2017	31/11/2017	31/10/2017	30/09/2017
Portfolio VaR:	**3.28%**	**5.35%**	**4.36%**	**5.47%**	**5.14%**
Sum of Standalone risk:	18.70%	17.40%	18.29%	18.07%	18.21%
Diversification benefit*:	15.42%	12.05%	13.93%	12.60%	13.07%

Source: Amundi Asset Management. Data as at 31 January 2018.
* Diversification does not guarantee a profit or protect against a loss.

[1] Past performance does not guarantee and is not indicative of future results.

Summary Asset Allocation

Figure 10
Portfolio Asset Allocation (market value %)

Asset Class	Market Value (%)
Equities	**46.0%**
Fixed Income	**36.2%**
Government Bonds	9.0%
Corporate Bonds	26.3%
Commodities	**10.1%**
Real Estate	**0.9%**
Forex	**1.9%**
Cash	**4.9%**

Source: Amundi Asset Management. Data as at 31 January 2018.

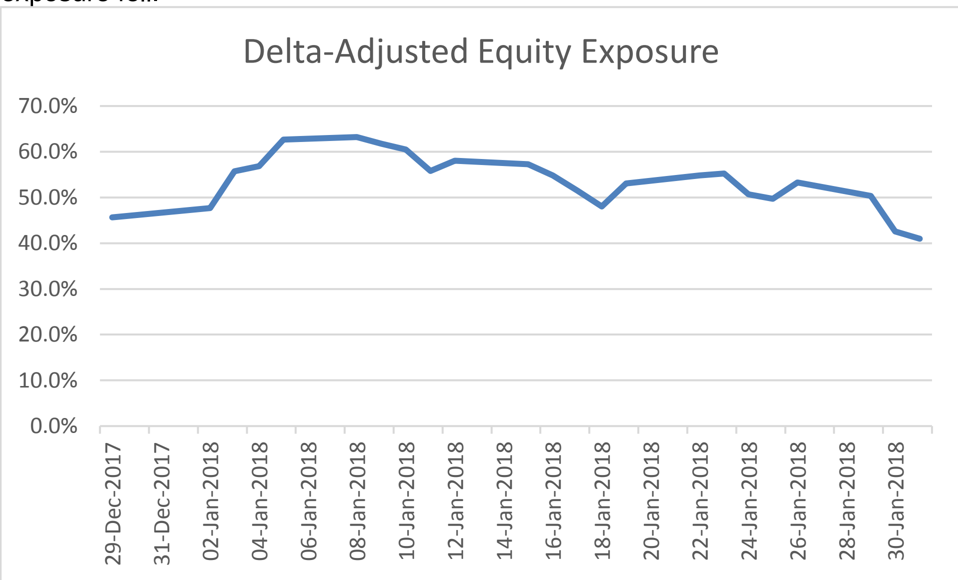
REVIEW & OUTLOOK

Equity exposure (in market value terms) remains relatively high

Increasingly using options

At first glance, the Portfolio equity exposure (based on market value) appeared to have increased during January (ended December 2017 at 41%, and ended January 2018 at 46%), but to get a more accurate picture of true equity exposure - it's best to also take into account our option holdings and look at the delta-adjusted exposure. We started the month with 45.7% delta-adjusted equity exposure and finished January with 41% (although the exposure rose to a high of 63% in early January – see chart below).

In previous monthly commentaries, we had noted how we had been replacing cash equity exposure with options, and particularly call options - meaning that our delta-adjusted equity exposure rose as markets also rose. But as the month went on, and markets performed strongly, we became more cautious on valuations, and we gradually began to replace our call options with put options. This gives us some protection against a sell-off in global equity markets, as was seen towards month-end when markets retracted and our delta-adjusted exposure fell.



Source: Amundi. Data as of 31 January 2018.

Positive on global growth

We continue to be positive on the global growth story, and therefore remain positive on most major equity markets. Our Thematic exposure has been kept unchanged and performed very well during the month. With macro data remaining strong, we believe this will translate into good Earnings Per Share (EPS) growth in 2018. In Europe, we expect approximately 9% EPS in 2018, slightly down from the 13% level achieved in 2017. In the U.S., expectations are for similar EPS growth - however we are watching the proposed tax reform package, which we feel has the potential to add another 8% - 10% EPS, although this is not yet fully priced by the market.

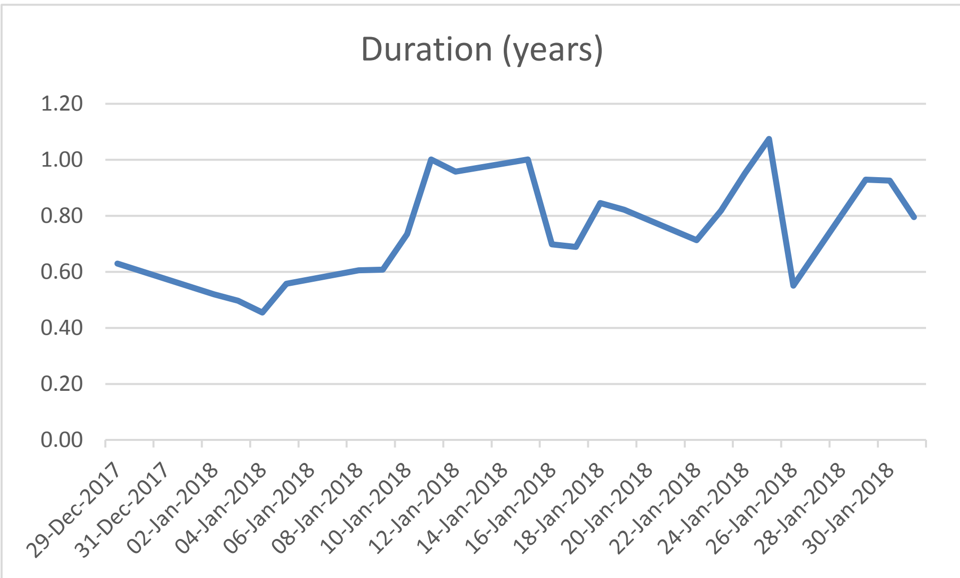
We are rotating slightly our geographic equity exposure to take account of the strong performance of the U.S. market, and the relative underperformance of Europe. We are taking profit on our U.S. call options and maintaining our European equity options, but we have extended their maturity. We have also restructured our Japanese equity exposure, by slightly reducing our Nikkei index exposure and replacing it with a long Japanese banks' exposure.

Still overweight Technology, Oil and Energy

With growth expected to be strong, we keep our overweight position on the Technology sector, which is exhibiting strong growth and generating good EPS. We are long Oil and Energy stocks, in both the U.S. and Europe. Fundamentals are good for the oil industry – the level of inventories is within the 5-year range, and Energy stocks are reporting a strong build-up in free cash flow. The Energy sector remains the worst-performing sector year-to-date, and the sector has lagged the move in the oil price. We also long Financials in U.S., Japan, China and Europe; and long Consumer Discretionary stocks in the U.S. To play the "U.S. tax reform" idea, we increased our long Russell 2000 position via futures and short-dated options.

Continue to run very low duration exposure

Our fixed income portfolio continues to run low levels of duration as we believe that global bond yields will push higher against a backdrop of better growth, increasing inflation and the removal of accommodative monetary policy settings by central banks. The portfolio duration was slightly positive, and actually increased during January to finish the month at 0.80 year from the end-December level of 0.63 year. We are long in Europe (about 0.7 year duration) and still long on the U.S. curve (currently 0.24 year duration). We are positioned for steeper yield curves in both Europe and the US. We retain a bearish bias in the UK in light of Brexit and higher short-term rates, and currently are -0.43 year short duration. Furthermore we are also short duration in Japan, where we feel the Bank of Japan's attempts at yield curve control may be abandoned - leading to a rise in Japanese government bond yields. Our views on inflation are unchanged, and in fact, have been reinforced by movement in commodity prices - therefore we have not changed any of our inflation basket positions.



Likewise with our Spread duration, where risk is also very low. This reflects the team's view that corporate credit valuations are stretched and vulnerable to the removal of the ECB's Quantitative Easing measures. During January, the spread duration of the Portfolio fell a bit, finishing the month at 0.4 year - compared to end-December level of 0.62 year. In the Investment Grade space, we are long at approximately 0.9 year, but have progressively been reducing our duration. Our current duration in High Yield is around zero, and in EM we are net long about 0.4 year.

Maintain a small long U.S. Dollar exposure	On the FX and Commodity side, as mentioned earlier in the commentary, we are maintaining a small long U.S. Dollar exposure - acknowledging that it hasn't acted as the diversifier that we thought it would, but also happy to keep the exposure as a hedge against our overweight EM positioning. We are also modestly overweight the Japanese Yen, Russian Rouble and Norwegian Krone. As in previous months, we continue to favour a strategy of running long EM FX positions to benefit from the positive carry in the higher yielding currencies, which can often amount to 7% - 8% differential against the U.S. Dollar. Against that, we remain short the Omani Rial, Singaporean Dollar, Thai Bhat and Hungarian Forint.
Reduced our long Oil position by 50%	In Commodities, our exposure has slightly increased to 10.1%, from end-December's 9.3%. We have slightly increased our long Gold position (but more as a hedge against market turmoil and/or geopolitical risk, rather than having a positive view on the metal), and have halved our long Oil position (from 2.7% to 1.4%) following the recently strong run in the oil price. We are also long some of the industrial metals such as aluminium, platinum and silver. We are keeping our long volatility positions and hedging structures, as extremely low volatility across the various asset classes belies excessive market complacency vis-à-vis geopolitical risks (e.g. Trump, Brexit, German government). Hence, our Portfolio features ample hedging structures, whilst attempting to maintain positive carry. In order to minimise the cost of hedging (realised volatility is still lower than implied volatility), we are looking to exploit volatility term structures and skews.
Continue to adopt a cautious approach to markets	In summary, we maintain our views and are relatively more favourable towards equities versus fixed income on a risk-adjusted basis. We are maintaining a shorter investment horizon; focusing on our Thematic and Satellite Strategies to generate alpha; utilising optionality with the aim of protecting the Portfolio from "fat tails"; and attempting to take advantage of mispriced opportunities.

Contributors:

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Important Information

Unless otherwise stated all information contained in this document is from Amundi Asset Management and is as at 31 January 2018.

Pioneer Funds – Multi Strategy Growth is a sub-fund (the "Sub-Fund") of Pioneer Funds (the "Fund"), a fonds commun de placement with several separate sub-funds established under the laws of the Grand Duchy of Luxembourg.

Date of First Use: 21 February 2018.

Doc ID: 427012