Monthly Portfolio Update

Pioneer Funds – Global Equity Target Income
31 August 2017

Equity

COMMENTARY

Market Review

The broad global equity market ended the month broadly unchanged in USD terms. The U.S. outperformed, adding marginal gains that were helped by the weaker U.S. Dollar. In contrast, both Europe and Japan lagged behind, losing ground of 1%, and 0.5% respectively (in local currency terms). Looking more closely at sector performance in August, we saw a preference for the more defensive sectors with Utilities outperforming, while Financials and Energy lagged. 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 for certain names within the market.

More positively, August drew to a close what was a very encouraging Q2 earnings season across the board, continuing the positive trend we saw in Q1. In Europe, we saw ongoing signs of the economic improvement in the region, as the more favourable operating environment for European corporates helped c.60% to beat EPS estimates.
In the US, over 70% of companies beat EPS estimates, while the numbers were similar in Japan. From a sector perspective, the best EPS beats came from Healthcare and Financials, while Staples and Utilities saw some disappointments. We continue to believe that the key supports remain in place; with robust earnings growth, a more stable political backdrop in Europe, and continued positive economic momentum helping to bolster sentiment towards the asset class as we move into the final months of 2017.

Portfolio Review

August was another positive month in terms of income generation within the Portfolio. We are pleased with our income generation year-to-date, and we believe that we remain on course to deliver our 2017 income target of 7%*. From a performance perspective, the Portfolio saw some marginally negative returns in USD terms.

Looking at the Portfolio's positioning; as we entered 2017, we noted that we were continuing to focus on three key themes within the Portfolio, and these largely remain in place today:

- A focus on companies where the debt is sustainable and the investment case is not just dependent on interest rates staying low. (we have found some interesting investment cases within Information Technology)
- Adding stocks exposed to fiscal spending, both in the areas of infrastructure spending and consumer exposed names, albeit we have reduced some of these names in August.
- Seeking quality Financial companies with strong capital positions, helping to underpin shareholder returns going forward. Higher interest rates are a natural catalyst for the sector. It is worth noting that this theme has been particularly rewarding this year and we have taken some profits.

Reflective of the seasonally quiet period in terms of market activity, changes within the Portfolio were relatively muted in August. We added Italian automaker Fiat to the Portfolio as a more tactical position. While the company is not a dividend story, it offers a fairly attractive restructuring opportunity at a compelling valuation. Staying with Autos, we reduced our holding of Daimler, believing that more compelling investment cases can be found in other areas of the market at this point.

We continued to reduce some of our more cyclical exposure by reducing our holding of US-listed luxury apparel company, Coach. While we continue to believe that the economic momentum could support the consumer exposed names, we viewed the company's softer outlook for 2018 as somewhat

disappointing, and felt it prudent to reduce our exposure.
We took some profits in our holding of international cruise operator Carnival, as we felt that the valuation is now less compelling as a result of the recent strong momentum.

Within Industrials, we reduced our holding of Siemens Gamesa due to some lackluster results from the company's power division. Given the more uncertain outlook, we decided to trim the position. We also reduced our holding of international electronics company Samsung. We continue to like the underlying fundamental investment case, however given the ongoing geopolitical tensions regarding North Korea, we reduced our holding as the company has significant exposure across Asia.

Finally, we sold our holding of media company Western Digital. The share price has performed quite well in recent months and we now believe that further upside may be limited – especially considering some of the uncertainty relating to the joint venture with Toshiba.

As earnings season came to a close, we were more active in terms of our option writing. Given the low level of volatility, we wrote a number of call and put options on the same name in order to profit from the low volatility of the underlying stocks. This was particularly rewarding in August, contributing positively to the Portfolio.

Top 10 Holdings	Portfolio Weight
Deutsche Telekom	2.3%
Apple	2.3%
Taiwan Semiconductor Manufacturing	2.2%
JPMorgan Chase	2.2%
Sekisui Chemical	2.1%
Sekisui House	2.0%
Royal Dutch Shell	2.0%
Citi Group	2.0%
GlaxoSmithKline	2.0%
Imperial Brands	2.0%

Source: Amundi Asset Management as at 31.08.2017

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. Global macroeconomic indicators are continuing to point to improved fundamentals. This has supported earnings growth for corporates around the globe 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. 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 seek names which we believe offer sustainable and reliable dividend growth. With this in mind, our focus is on names which can deliver reliable earnings which we continue to believe could be the primary driver of further upside from here.

Important Information

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Date of First Use: 14 September 2017.

Doc ID: 258139