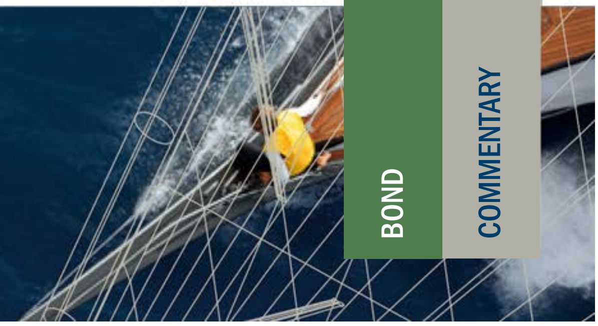
Monthly Portfolio Update

Pioneer Funds – Strategic Income

31 May 2017



BOND COMMENTARY

Market Review

Strong global growth, robust first quarter corporate revenue and earnings, a resounding victory in France by the pro-Euro Macron, and softer inflation data drove strong equity and credit market performance over the month. On a quarterly SAAR basis, U.S. first quarter GDP was revised upward from 0.7% to 1.2%, Eurozone GDP surprised to the upside with 2.0%, and Japan achieved its strongest GDP growth at 2.2% in one year. Only China's growth slowed, reflecting tighter monetary policy and regulation. In addition, oil prices rose from their lows early in the month with OPEC's decision to extend production cuts. Although U.S. inflation measures, including wages, continued to fall from their February highs, U.S. employment was strong, with a 211,000 non-farm payroll report and a 4.4% unemployment rate. The FOMC pointed to strong employment in announcing their continued intention to raise rates in June. Political turmoil increased with Trump's firing of FBI head James Comey, and further indications of potential Russian collusion with the Trump campaign, as well as corruption allegations against the Brazilian president, Michel Temer. This turmoil, however, did not result in any prolonged rise in global market volatility; volatility, as measured by the VIX, fell to an 11-year low by month-end.

Intermediate and long-term U.S. Treasury yields fell over the month on lower inflation expectations. The 10-year yield fell from 2.28% to 2.20%. Benefitting from low volatility, agency MBS achieved 0.14% excess returns and now stand even with Treasuries on a year-to-date basis. Low-coupon agency MBS outperformed as mortgages rates reached their lowest level of 2017. The market also benefitted from the news that the FOMC will pursue balance sheet tapering slowly and transparently, with their plan to announce caps on any reductions. CMBS enjoyed strong performance on greater demand for risky assets; non-agency MBS were buoyed by a continued strong housing market. Despite a high $147 billion in new issuance over the month, Investment Grade (IG) corporates outperformed, benefitting from strong corporate earnings and continued demand for high quality, higher yielding assets. High Yield (HY) corporates enjoyed strong performance as well, returning 0.9%, for a year-to-date return of 4.8%. Floating rate assets underperformed, as market expectations of rate increases fell; bank loans returned 0.4%, their second-weakest monthly return in 2017, while catastrophe bonds returned 0.3%. Emerging Market (EM) sovereigns and corporates posted good performance of 0.64% and 0.62%, respectively, despite modest losses sustained in Brazilian paper. The U.S. Dollar Index fell 2.2% over the month, which may have reflected greater skepticism regarding the implementation of Trump's pro-growth agenda, U.S. GDP growth expectations, and future Fed rate increases. The U.S. Dollar has now given back all post-election gains. The Euro rose 3.2% and the Yen rose 0.64% vs. the U.S. Dollar.

Performance Review

The Portfolio underperformed its benchmark, the Bloomberg Barclays U.S. Universal Index, for the month of May but outperformed on a YTD basis. Returns were hurt primarily by the relative short duration position of the Portfolio, as intermediate and long Treasuries rallied in the wake of soft inflation.

Positive

- The Portfolio benefitted from security selection within Financials and Supranationals. European Financials, including Credit Agricole, Intesa Sanpaolo, and RBS rallied on better-than-expected earnings and strong Eurozone GDP growth.

- The Portfolio's barbelled yield curve position contributed to performance, as the yield curve flattened on lower inflation expectations. In particular, the underweight to the 2-year and overweight to the 30-year key-rate durations outperformed.

- Portfolio returns were also aided by the lower relative quality bias within Financials, which reflected the Portfolio's overweight to subordinated positions within capital structures.

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Negative

- The relative short duration position of approximately 1 year hurt performance, reflecting the impact of the negative carry, as well as a decline in intermediate and long-term rates. This negative impact was partly offset by the benefit of the barbelled yield curve position, discussed above.

Portfolio returns were also hurt by sector allocation, particularly the 2.8% exposure to TIPS. The impact of the 27% underweight to nominal Treasuries partly offset this negative effect, in a month when credit sectors outperformed.

Outlook

The U.S. economy may deliver over 2% growth in gross domestic product (GDP) in 2017. While the benefits of Donald Trump's proposed policies of lower taxes, higher infrastructure spending and less regulation should be realised more in 2018 than in 2017, solid employment should continue to support consumption and the housing market. In addition, stronger corporate profits and improved trade may also contribute to stronger 2017 growth. We believe inflation is close to the Fed's targets, and that the Federal Open Market Committee (FOMC) risks falling behind the curve, with the economy near full capacity and little labour market slack. The U.S. Dollar may be largely range-bound. While it may be supported by wide yield differentials, continued divergence in central bank policies and a positive economic outlook for the U.S., countervailing forces, including Trump's preference for a lower U.S. Dollar, combined with the three openings on the FOMC, the potential for more expensive trade and the improving global economy, may put a brake on U.S. Dollar appreciation.

The Portfolio continues to be positioned for rising interest rates, and a solid economy:

- Overweight to credit, underweight to U.S. Treasuries. Most U.S. government debt is unattractive, while credit sectors may benefit from stronger growth, lower taxes, and less regulation.

- The Portfolio holds a 1-year relative short duration position compared to the Portfolio's benchmark. With the market only pricing in one rate increase in 2017, we believe the FOMC and the market may be behind the curve, given solid GDP growth, little slack in the labor market, and an average 1.5% to 2% inflation over the rest of the year.

We hold long-duration Treasury Inflation Protected Securities (TIPS), and believe the recent decline in breakevens does not accurately reflect the longer-term potential for 2% inflation.

The Portfolio holds a slight underweight to agency MBS, but including the overweight to non-agency MBS, remains overweight to RMBS. We find the relative value of high quality non-agency MBS attractive. Fundamentals for the Housing sector remain strong, given improving employment, the recent decline in longer-term rates, and attractive home price affordability.

The Portfolio remains underweight to Investment Grade (IG) corporates, but continues to hold a significant overweight to High Yield (HY) corporates. Tighter spreads and higher leverage is counterbalanced by strong fundamentals.

Within corporates, we hold an overweight to Financials, although we have reduced that exposure as spreads have narrowed. We hold the majority of exposure in U.S. Financials, and modest exposure to UK and European Banks. We believe the Banking and Insurance sectors offer attractive relative value, with spreads similar to the broad corporate benchmarks, but with lower event risk of share repurchases or credit impairment due to M&A activity. Banks are currently focused on improving capital ratios to meet regulatory requirements. Banks should also benefit from rising global yields and steepening yield curves.

We continue to hold an overweight to Energy, although we have reduced exposure as spreads have narrowed. The Portfolio holds an overweight to the midstream sub-sector, a sector that shows relatively less sensitivity to oil price volatility. We expect continued spread tightening in the space, which remains one of the wider-trading subsectors in IG. While OPEC's extension of production cuts should help offset increased production from U.S. shale producers, we are watching the supply/demand balance carefully.

We believe that the U.S. Dollar may be range-bound in 2017, and have recently added select EM currency exposures. We continue to hold a significant overweight to the U.S. Dollar, relative to historical positioning of the Portfolio.

The Portfolio includes certain Emerging Markets (EM) exposures, with a preference for countries undertaking important structural reforms, such as India, Indonesia, Argentina, and Brazil. EM are benefitting from the recovery in commodity prices and stronger global demand, as evidenced by improving global PMIs.

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Pioneer Funds – Strategic Income may gain exposure to bank loans only indirectly through derivatives. Unless otherwise stated all information contained in this document is from Pioneer Investments and is as at 31 May 2017.

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