Monthly Portfolio Update

Pioneer Funds – European Equity Target Income
31 October 2017

EQUITY COMMENTARY

Market Review

October was another positive month for European equities with the pan-European market adding gains of c.2%, taking year-to-date gains to over 12%. Looking across the sectors in October, it was another positive month for the cyclical areas, with Energy, Information Technology, and Materials leading the way. On the other side, both Healthcare and Telecommunication Services lagged throughout the month.

Macro releases in October continued to paint an encouraging picture of the European economy, with Euro area composite PMI printing at 56.5, which should be supportive for underlying GDP growth. Outside of the more positive macro data, another key event during the month was of course the much anticipated October ECB meeting. Many expected ECB President Draghi to announce a clear plan and timeline to exit the ECB's monetary stimulus programme, and show perhaps a more hawkish rhetoric - given the more stable economic backdrop. This did not come to pass, instead he vowed to continue the current pace of monetary stimulus to year-end, and while ECB purchases will be reduced next year, very accommodative policy will remain in place as long as necessary. This was naturally supportive for risk assets in the region. Finally, October marked the beginning of the Q3 earnings season for European corporates, and given the strength of recent results seasons, expectations are high. Thus far, earnings have delivered a modest beat, with around 35% of companies beating EPS estimates by 5% or more, which is broadly in-line with the trajectory of the Q2 season. Much newsflow in recent months has focused on the stronger Euro. Recent corporate results confirm our view that the impact would be muted, with only some marginal top line weakness coming through. As we have flagged on many occasions, given the current valuations of the market, we believe robust earnings growth is the key to unlock further upside from here. Reflecting on October, we are encouraged by the trends we are seeing as we move into year-end.

Portfolio Review

October was another positive month for the income generation within the Portfolio. At this point, we remain on course to deliver our income target for 2017.

As we approach the end of the year, and given the success of our income generation to date, we are now focusing on more balance between income potential and capital appreciation potential within the Portfolio. Reflecting this, we increased our exposure to some of the more cyclical areas of the market, namely autos. Here we added a new position in German automaker Volkswagen. We see the company as a clear beneficiary of the improving macro dynamics we are experiencing in the global economy. Furthermore, we see the company's product range and pipeline as being quite attractive and supportive of growth going forward. Staying with autos, we also added Mercedes Benz owner Daimler to the Portfolio, believing that the company has some attractive growth opportunities going forward, especially in the North American and Asian markets.

We added a new position in international cement company Heidelberg Cement to the Portfolio. We see the company as having an attractive exposure geographically, with 46% exposure to Europe, 26% to the U.S., and 28% to Emerging Markets. Construction trends in these regions remains solid, so therefore we view the operating environment as attractive. Following a period of underperformance, the valuation is compelling with an attractive FCF yield.

In Financials, we added German-banking group AAreal bank. We believe the company is well positioned to benefit from the improving trends we are seeing in the German banking market, due to their strong capital position.

We maintain our overweight to the Energy sector. During the month we increased our holding of Royal Dutch Shell and BP, both of whom are continuing to show marked improvements in their operating cash flow generation, which is key to support dividends going forward. In contrast, we reduced our holding of Italian integrated energy company ENI.

Continuing to tactically reduce positions by using our option writing strategy as a means of generating additional income, we reduced our holdings of Allianz, AXA, and BNP Paribas.

From an option writing perspective, given that the key dividend distribution season is over for many European names, we were more active in our option writing activity. As the market was strong, and some stocks approached target prices, we found good opportunities to write call options. We were also active on the put side where we see attractive investment cases and income opportunities.

Top 10 Holdings	Portfolio Weight
British American Tobacco	3.6%
Total	3.4%
Orange	3.2%
Nestle	3.2%
ING	3.1%
HSBC	2.9%
Roche	2.9%
Engie	2.9%
BP	2.8%
Richemont	2.8%

Source: Amundi Asset Management as at 31 October 2017

Outlook

Events during October have further bolstered our positive outlook for the asset class as we approach the end of 2017. Domestic trends remain very encouraging, and should continue to support the required levels of earnings growth in order to justify further upside for the market. Perhaps one negative that raised its head in recent weeks, has been the political situation in Spain, which has undoubtedly put European political uncertainty back at the forefront of investors' minds. Right now, we view the situation as a local issue, and should not have a more widespread impact on risk appetite - albeit a potential source of short-term volatility. Throughout 2017, our focus for the Portfolio has been balance, and this remains in place today. Recognising the ever present potential for market rotations, we believe it is prudent to avoid significant sectorial skews, and instead focus on those idiosyncratic investment cases that we believe have the ability to deliver consistent and reliable earnings over the longer term.

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