Monthly Portfolio Update

Pioneer Funds – European Equity Target Income
31 January 2018

EQUITY COMMENTARY

Market Review

The European equity market began 2018 on the same positive trajectory as we saw during the final weeks of 2017. In January, the broad European equity market added over 1.5% led higher by some of the more cyclical areas. At sector level, Financials and Consumer Discretionary were the best performing; while Real Estate, Utilities, and Consumer Staples lagged.

Perhaps the most prominent event during the month was the January meeting of the ECB. While Mr. Draghi remained quite neutral in his tone, and continued to stress that the ECB would maintain its supportive monetary policy, his comments caused quite an aggressive and somewhat surprising market reaction. Investors appeared to view his comments as being more hawkish than anticipated, and as a result we saw a sharp move higher in bond yields and Euro strength, as equity markets gave back some of the strong performance we had seen during the start of the month. While volatility remains at very suppressed levels compared to historical averages, we did note an uptick in January. This served as a reminder to investors that the market can be susceptible to short-term swings. For us, the underlying fundamentals supporting the European economy remain firmly in place. Economic data released during the month continued to point to solid growth across the eurozone, with PMI's remaining at very encouraging levels.

We have long been of the view that earnings growth will be the primary catalyst for the market to move higher from here. January marks the beginning of the Q4 2017 earnings season for European companies. While only a small percentage have reported at this point, the positive earnings momentum that we have seen in recent quarters appears to be continuing. With current valuations becoming fuller, the ongoing evidence of earnings growth is key. We continue to believe that the underlying conditions within the European economy provide a fertile environment for companies to deliver, and developments in January have helped to reinforce this view.

Portfolio Review

2017 was a challenging year for income generation as volatility remained very suppressed, while the positive market movement caused dividend yields to fall across the board. Despite this more difficult environment, we are very pleased to confirm that at the end of January we made the final distribution for 2017, confirming that we met our income target for the year. In addition, we have maintained our income target of 6.75% for 2018. Performance was flat in January in what was a particularly active month for Portfolio changes.

Firstly, we selectively increased some of our holdings within Financials. Given the more supportive economic backdrop, inflationary dynamics, and the subsequent increase in interest rates - we see the sector as an obvious beneficiary. Against this backdrop we increased some of our core holdings, namely Dutch domestic banking group ABN Amro, and Italian-based Intesa SanPaolo. We continue to believe in the strength of their underlying business models, and the potential for increasing dividends going forward. Additionally, in the case of Intesa SanPaolo, we see the apparent commitment of the management to place an increasing emphasis on tackling the NPL issue, as an additional positive for our investment case - as has been reflected in the positive share price movement in recent weeks. We also increased our holding of Nordic bank Nordea as some recent weakness offered us the opportunity to increase our exposure at a more compelling valuation.

We increased our exposure to Utilities by adding ENEL and RWE, believing that both offer the potential for reliable dividend growth over the medium-term, given the good cashflow visibility of the underlying business models. In addition, RWE is expected to pay a special dividend in 2018, which is an additional support for our investment case in the name. On the other side, we sold out of our holding on Engie as we believe that the other names offer a more compelling investment case.

Amundi
ASSET MANAGEMENT

In Energy, we maintained our overweight position as we particularly like the dynamics of certain names within the sector. Of note, we particularly like the investment case of Royal Dutch Shell as cashflow generation continues to improve, and the prospects of an all cash dividend and share buyback programme are expected to be realised in the coming months.

Within the more consumer areas of the market, we reduced our holding of British American Tobacco as the regulatory outlook for tobacco companies in general becomes ever more uncertain. We also sold our holding of Imperial Brands after Japan Tobacco signalled that it did not intend to pursue M&A activity with Imperial Brands. On the other side, we increased our holding of beverage manufacturer ABI. The share price has been under pressure recently as investors have become increasingly concerned about a slowdown in the Brazilian beer market. We viewed the recent weakness as an attractive opportunity from a valuation perspective, as our view on the company's underlying markets remains positive at this point.

Finally, within Pharmaceuticals, we added French-based pharmaceutical company Sanofi to the Portfolio. We believe that both the valuation and dividend sustainability is more attractive, relative to some of its peers within the sector. We reduced our holding of Roche, which helped to fund this addition.

From an option perspective, we were less active as we entered earnings season for many European corporates. During earnings season, the potential for large share price movements becomes ever possible, and therefore the probability of execution becomes greater.

Top 10 Holdings	Portfolio Weight
SIEMENS AG	4.7%
TOTAL	3.5%
NESTLE	3.3%
ROYAL DUTCH SHELL	3.3%
VODAFONE GROUP	3.1%
AXA	3.1%
BRITISH AMER TOBACCO	3.1%
ABN AMRO	3.1%
ENEL	3.0%
BP	2.7%

Source: Amundi Asset Management as at 31.01.2018

Outlook

As we enter 2018, we maintain our constructive outlook for European equity markets. 2017 was a year for the cyclicals, with the more economically sensitive areas of the market driving the rally. Market movements in January saw a continuation of this trend, as economic data and investor sentiment remained on a strong footing. One sector which somewhat lagged in 2017 was Financials, however with the move higher in long-term interest rates, which we saw in January, Financial names were the obvious winner. While we continue to remain cautiously optimistic on our outlook for the sector, we are cognisant of regulatory demands and therefore we remain very selective in our holdings. We prefer those names that have strong capital positions, which should facilitate increased shareholder remuneration going forward. In keeping with the theme of higher interest rates, much newsflow was centered on the continued strength of the Euro, and the subsequent impact on corporate profitability. For us, the stronger Euro is at least partly the result of improved Eurozone economic fundamentals, and while another significant move higher in the currency would be a clear headwind, we do not see the current level as a threat to our current outlook.

Within our Portfolios, we remain aware of the potential for market rotations, and therefore, as we did throughout 2017, we see the need for balance. We continue to focus on idiosyncratic investment cases which offer us the potential for reliable and sustainable earnings over the medium term.

Amundi
ASSET MANAGEMENT

Date of First Use: 9 February 2018.

Doc ID: 423108

Amundi
ASSET MANAGEMENT