Monthly Portfolio Update

*Amundi Funds II – Pioneer U.S. Fundamental Growth**

28 February 2018

EQUITY

COMMENTARY

Market Review

U.S. stocks posted a negative monthly return for the first time since October of 2016, with the S&P 500 Index dropping 3.7%. Volatility, which had been subdued for much of 2017, was significantly higher as investors grew concerned that wage pressures could drive inflation higher. Growth stocks maintained their performance edge over value with the Russell 1000 Growth Index returning -2.6% for the month versus a -4.8% return for the Russell 1000 Value Index.

All of the eleven sectors of the growth index posted negative results for the quarter; Telecommunications (-11%) and Energy (-10%) were the worst performing sectors while Financials, Technology and Utilities were best performers (all down less than 1%).

Portfolio Review

The Portfolio underperformed the Russell 1000 Growth Index. High growth stocks such as Amazon and Netflix continued to outperform. These two stocks are not held in the Portfolio but are large contributors to the benchmark performance and accounted for the majority of the Portfolio's underperformance in the month.

Among stocks held in the Portfolio, the largest negative attributors were Retail sector stocks such as Walmart, Home Depot, Tractor Supply Company and O'Reilly Automotive. However, we believe that these stocks have sustainable competitive advantages that should enable them to sustain high returns on capital despite competition from on-line players. In addition, we expect that strong employment trends and lower taxes will drive solid growth in retail spending this year.

Sector allocation decisions helped relative performance since the Portfolio was overweight the better performing sectors such as Information Technology and Financials while underweight the more interest-rate sensitive sectors like Real Estate and Telecommunications, which performed poorly during the month.

The top relative detractor was Walmart. Walmart shares dropped sharply after the company reported lower-than-expected growth in online sales. We believe the decline in the growth rate is temporary and online sales growth will accelerate during the year due to continued improvements in Walmart's omni-channel distribution. Home Depot fell despite reporting strong quarterly earnings, including comparable store sales of 7%. Nonetheless, we believe the investment thesis remains intact and continue to own the stock. Allergan declined due to concerns that there may be greater competition for its largest drug, Botox. We reduced our position in Allergan last year and the remaining position is under review.

Among the Portfolio's top individual contributors was long-time holding Mastercard. Its shares outperformed after the company announced strong quarterly results. Raytheon also contributed on the back of a positive outlook for domestic and international defence spending. Cognizant Technology Solutions rose due to strong results and a positive outlook for 2018, including higher profit margins despite making investments for future growth.

Trading Activity

We initiated two new positions during the month, Electronic Arts and Zoetis, and sold two positions, Hershey and United Technologies. Electronic Arts is one of the world's largest video game publishers and owns some of the most well-known video games including FIFA, Madden NFL, and Battlefield. We believe the firm is well positioned to deliver consistently high returns on capital and has a number of secular growth drivers while trading at an attractive valuation. Zoetis is a leader in animal health medicines for both livestock and companion animals. Zoetis' innovation and pricing power help drive solid growth and high returns on capital.

* Prior to 16 February 2018, Pioneer Funds –U.S. Fundamental Growth

Amundi
ASSET MANAGEMENT

We sold the position in Hershey due to increasing competition in the U.S. candy market and on the back of concerns related to the company's acquisition strategy. We sold United Technologies as we see limited valuation upside and believe that the pending acquisition of Rockwell Collins may result in lower returns on capital.

Outlook

As we look ahead to 2018, we are cautious in our outlook for equities given high valuations. Though tax cuts and other pro-growth government policies may further boost growth, there are significant factors that could undermine growth - including the potential for the Fed to raise interest rates more aggressively if inflation increases, possible negative repercussions from restrictive immigration and trade policies, and geopolitical issues.

The Portfolio remains conservatively positioned with the largest overweight in the Financials sector where we have several holdings with wide moats, high returns on capital, solid growth prospects and attractive valuations. In addition, higher interest rates may boost earnings for some of our financial services holdings.

While growth stocks performed well in January following a very strong 2017, much of the performance continued to come from a small set of highly valued growth stocks, which we believe could be vulnerable when the market corrects. Volatility has been exceptionally low over the last year but this may change if inflationary pressures continue to build, leading to further tightening of monetary policy.

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