

Monthly Portfolio Update

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

31 May 2018

EQUITY

COMMENTARY

Market Review

U.S. stocks generated solid gains for the month of May, with the S&P 500 returning 2%. Growth stock returns exceeded those of their value counterparts, with the Russell 1000 Growth Index rising 4% while value stocks, as measured by the Russell 1000 Value Index, were only up 1% for the month. Year-to-date, the Russell 1000 Growth Index has returned 6%, far surpassing the -2% return for the Russell 1000 Value Index. Returns in the growth Index continue to be driven by high growth, high valuation stocks in the Consumer Discretionary and Information Technology sectors.

Nine of the eleven sectors of the growth Index posted positive results for the month; Information Technology (+8%), Industrials (+4%), and Consumer Discretionary (+2%) were the best performing sectors while Telecommunications (-4%) and Consumer Staples (-1%) were the only sectors to show a negative return for the month.

Portfolio Review

The Portfolio underperformed its benchmark, the Russell 1000 Growth Index, in the month of May. A significant contributor to the underperformance was the Portfolio's underweight relative to the benchmark in high price-to-earnings (a valuation measure) and high Beta (a volatility measure) stocks. These stocks outperformed the more moderately valued and lower volatility stocks the Portfolio favours for risk control purposes.

Another contributor to underperformance in the month was stock selection. The largest individual detractors to performance were Gilead Sciences, Cognizant Technology Solutions, and Time Warner. Gilead Sciences fell after reporting disappointing first quarter results due to destocking of HIV product inventories. The destocking issue is a temporary one and does not alter our longer-term thesis that growth in the company's HIV products will more than offset declining Hepatitis C sales by early next year,

resulting in overall revenue and earnings growth for the company. Cognizant Technology Solutions declined after indicating that second quarter results would come in below expectations due to a change in tax rate following a reinterpretation of the new U.S. corporate tax code. The modification in tax rate is a one-time occurrence and does not affect our investment case, which is that Cognizant is benefitting from a long-term outsourcing trend. In addition, Time Warner fell due to ongoing concerns regarding the possibility that the Department of Justice will be successful in blocking the merger with AT&T or in requiring that Time Warner divest assets as part of the merger process. We believe the stock is attractive even if the merger is unsuccessful, given solid returns on capital and sustainable competitive advantages in media content production.

Among the stocks that contributed to benchmark relative performance in the month of May, were Adobe Systems, CDW and Apple. Adobe rose after announcing the acquisition of Magento Commerce, an ecommerce platform that will allow Adobe to build out its ecommerce presence. CDW performed well after reporting better than expected quarterly results driven by strong IT spending in the U.S. Another contributor, Apple, rose after reporting strong growth in services revenue driven by Apple Music, Apple Pay, App Store, and iCloud.

Sector allocation did not materially affect relative returns in the month.

Trading Activity

We added one new position in the month of May, Emerson Electric. Emerson is a diversified manufacturer of industrial process automation equipment and systems, commercial and residential climate and refrigeration products, and other products and services. The company generates high returns on capital, has clear sustainable competitive advantages, and should benefit from secular growth in industrial automation. In addition, the stock trades at a discount to what we believe is its intrinsic value.

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

Outlook

Despite strong economic data in the U.S., we are cautious on equities, primarily due to the prospect that interest rates are expected to continue rising, which could ultimately cause the economy to slow. In a rising interest rate environment, we believe the market would increasingly favour the types of stocks the Portfolio invests in, which are stocks that are reasonably valued and have low debt, stable earnings, and high returns on capital.

In terms of positioning, the Portfolio's largest overweight is in the Financials sector where we have several holdings with wide moats, high returns on capital, solid growth prospects and attractive valuations. Though the Portfolio has less exposure than the benchmark to the high growth, high valuation stocks that have led the market, we believe these stocks are vulnerable in a rising rate environment and may underperform during a market correction.

Important Information

On the 16 February 2018, Pioneer Funds was renamed Amundi Funds II. Prior to 16 February 2018 the name of the sub-fund was with the prefix "Pioneer Funds".

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