Monthly Portfolio Update

Pioneer Funds – U.S. Fundamental Growth
31 August 2017

EQUITY COMMENTARY

Market Review

U.S. equities posted mixed results in August, with the S&P 500 returning 0.3%. Growth continued to outperform value as investors rewarded secular growth over cyclical growth. The Russell 1000 Growth Index returned 1.8% vs. -1.2% for the Russell 1000 Value Index.

Six of the eleven sectors in the growth index posted positive results for the month, led by Real Estate (+4%), Information Technology (+4%) and Healthcare (+3%). Energy (-6%) and Financials (-2%) were the worst performing sectors.

Portfolio Review

The Portfolio underperformed the 1.8% return of the Russell 1000 Growth Index. Year-to-date, the Portfolio's return also trails the 19.2% return for the Index.

Year-to-date, the Portfolio's defensive positioning, with an overweight in less cyclical areas such as Consumer Staples and an emphasis on valuation and earnings stability, has significantly detracted from performance relative to the benchmark. However, this positioning is consistent with the Portfolio's philosophy and focus on limiting downside risk, especially when market valuations are high. On a stock specific basis, not owning Facebook due in part to our concerns about its valuation, negatively impacted relative performance by 0.7%. Consumer stocks such as O'Reilly Automotive and Ross Stores also detracted from performance due to concerns about the highly competitive retailing environment and the potential threat from online competitors such as Amazon.

For the month, individual detractors included pharmaceutical company Allergan, which fell despite reporting inline quarterly results due in part to competition concerns regarding its product for treatment of dry eye, Restasis. We believe that Allergan has a promising pipeline of products in development that could more than offset any decline in sales of Restasis and we have maintained our position in the stock.

Another detractor, leading retail pharmacy chain CVS Health, failed to keep pace with the market due to a lack of earnings growth, the consequence of a loss of a few large client accounts to a competitor. Despite this near-term setback, we believe CVS is well-positioned competitively for the long term and will grow earnings and cash flow over time.

A third detractor, Intercontinental Exchange, a leading operator of commodity and financial product exchanges, declined, despite posting solid quarterly results. We remain confident in the company's secular growth prospects given the increasing use of data analytics in the investment business.

Individual contributors to relative performance in the month included scientific instrument manufacturer Thermo Fisher Scientific, which rose after reporting strong quarterly results. A second contributor to performance, biopharmaceutical company Gilead, increased after announcing an acquisition of Kite Pharma, which has a promising pipeline of cancer immunotherapy products. Investors viewed the acquisition as a positive step in deploying the company's sizeable cash position.
Finally, Raytheon increased after reporting strong quarterly results and a positive outlook given increased defence spending globally.

Outlook

While our outlook for global economic growth remains positive, there are significant risks to this outlook, including a tightening of monetary policy by the Federal Reserve, uncertainty relating to U.S. public policies on trade and immigration, and geopolitical risks such as North Korea. For this reason, we continue to favour secular over cyclical growth.

With respect to the equity markets, we remain cautious given that valuations are high by historical standards. In particular, we believe a number of cyclical stocks - especially in the Industrials sector - have performed well in anticipation of higher economic growth in the U.S., which may not occur if Congress fails to enact policies that stimulate economic growth. We also believe the highly valued technology-oriented stocks that have driven the equity markets higher this year could be vulnerable in a market correction. For this reason, we continue to underweight the Technology sector in general and those stocks in particular.

Consistent with our conservative approach to investing and high quality focus, the Portfolio remains overweight in the Healthcare and Consumer sectors. Healthcare stocks are attractive in our view given reasonable valuations, secular growth due to demographics, high returns on capital, and little prospect of a significant change to the healthcare landscape under the new Administration due to political gridlock in Washington, DC. We also remain optimistic about our consumer holdings despite their recent decline given the strength of their business models and their longer-term growth prospects.

While the Portfolio has lagged the benchmark as the markets have moved higher, this performance is consistent with our expectation of how the Portfolio will perform in sharply rising markets driven by stocks with high valuations. We believe the Portfolio's defensive positioning should allow it to capture most of the upside if markets continue to rise while providing downside protection when the markets turn.

Important Information

Date of First Use: 13 September 2017.

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