

Equity Market Review

The summer months tend to be a quiet period for equity markets and July was no exception. Looking at the broad European equity market (MSCI Europe), it lost c. 0.5% in what was an uneventful month for the asset class. The Eurozone market (MSCI EMU) ended broadly flat. Looking from a sectorial standpoint, Materials and Financials were the best performing areas, while Healthcare and Consumer Staples lagged.

July marked the start of the Q2 reporting season for the region's corporates and thus far, signs have been encouraging. Excluding Energy, EPS growth stands at a healthy 7%. One point to note at this stage is the positive surprises in terms of top line growth with 10% more companies beating estimates than missing. We have alluded to the more favourable economic backdrop for European corporates in recent communications and this is perhaps further verification that this is translating into numbers. Reflecting the more positive economic environment within Europe has been the marked strengthening of the Euro currency in recent weeks. This has perhaps held back performance, as investors weigh the potential impact this may have on corporate profitability. Investors in European equities are accustomed to currency volatility and we do not view the current valuation of the Euro as a threat to derail the regions favourable economic trajectory. That said, in Q1, we saw blockbuster earnings growth of 23%, but with tougher comps and the Euro strength, this has slowed to a more reasonable level. For us, the key supports remain in place, with a more stable political backdrop, solid earnings and the return of flows helping to support sentiment in the region.

Outlook

The summer recess appears to have taken hold, with European equity markets moving sideways in recent weeks. This has not changed our constructive outlook for the asset class as we move into the second half of the year. Perhaps the biggest challenge facing the market is the high level of investor expectations, whereby any soft economic data or earnings releases may reignite some volatility. This can be observed by looking at the performance of stocks on the day of earnings releases in the most recent results season whereby companies that beat expectations delivered negligible outperformance, however, those that missed underperformed by 2%. That said, for us, the three key supports remain in place, with a more stable political backdrop, robust economic momentum, and of course, continued inflows into the asset class. Staying with the topic of flows, another largely forgotten element is corporate buybacks. Given the current high level of business confidence and the strength of balance sheets across the board, any uptick in buyback activity would be an additional catalyst, especially as buyback programs tend to be stickier and less volatile than external inflows. Within our portfolios, we continue to seek balance. Our focus remains firmly on names that we believe can deliver reliable earnings growth, which in our view, will be the ultimate driver of returns from here.

Q2 Earnings: The Show Carries On**Thought of the Month**

Continuing the positive momentum from Q1, the Q2 European earnings season has been quite encouraging, with EPS beats comfortably above historical averages. Sector wise, Banks, Semiconductors and Autos have delivered good beats, while Utilities and Commercial Services missed. Taking a holistic view of the market this is only the second time since 2003 that, Europe's current EPS is above the U.S. Yet performance versus the U.S. lags year-to-date (in local currency)¹. Much of this can be attributed to the currency movements we have seen, with the EUR/USD moving from 1.05 in January, to 1.18 in August. The big question on the lips of investors is whether European corporates can continue the positive earnings momentum given the Euro strength. Right now, we do not see it as a significant problem, but rather a modest headwind given the potential impact on earnings, but only time will tell.

Pioneer Funds - Top European Players**Morningstar Rating™ ★★★**

	MTD	YTD	3 Yrs Ann	5 Yrs Ann
Pioneer Funds - Top European Players A EUR ND	-0.48%	3.91%	5.49%	9.07%
MSCI Europe Index	-0.37%	6.28%	6.44%	10.17%
Morningstar Europe Large-Cap Blend Equity	-0.29%	6.61%	6.42%	9.61%

- Pioneer Funds – Top European Players (A EUR ND) performed broadly in-line with its benchmark, the MSCI Europe, in July.
- At sector level, the Portfolio had a positive contribution from Industrials, Information Technology, and Healthcare. In contrast, some of our holdings within Consumer Discretionary and Materials detracted.
- In Healthcare, our holding of Lonza performed strongly. In July, the company reported very strong H1 results beating consensus expectations in terms of both sales and EBIT, which in addition to a confirmation of their 2017 guidance supported the share price. Also worth noting is that the company issued encouraging 5-year guidance out to 2020, and given the management team's successful track-record in delivering on its guidance this was well received by investors.
- The Portfolio lost some ground within Consumer Discretionary. Our holding of gaming company Paddy Power Betfair detracted. While newsflow during the month was quite muted, investors appeared to remain worried about the competitive and regulatory landscape gaming companies face going forward. We remain of the view that the large scale of Paddy Power Betfair will help protect them from industry challenges. In addition, their strong online offering is an additional pillar for our investment case.

Pioneer Funds – Euroland Equity**Morningstar Rating™ ★★★★★**

	MTD	YTD	3 Yrs Ann	5 Yrs Ann
Pioneer Funds - Euroland Equity A EUR ND	0.26%	7.74%	8.41%	12.66%
MSCI EMU Index	0.33%	8.80%	8.42%	12.58%
Morningstar Eurozone Large-Cap Equity	0.34%	8.84%	8.03%	11.75%

- Pioneer Funds – Euroland Equity (A EUR ND) performed broadly in-line with its benchmark, the MSCI EMU, in July.
- At sector level, the Portfolio had a positive contribution from Information Technology and Industrials. In contrast, some of our holdings within Consumer Staples and Financials detracted.
- Industrials were a source of positive returns for the Portfolio in July. At stock level, our holding of capital goods company Philips was a rewarding position for the Portfolio. During the month, the company reported Q2 results that saw EBITDA coming in-line with consensus expectations. Orders surprised positively, increasing by 8%, which supported management guidance for strong sales growth in the second half of the year. This, coupled with robust growth in margins allowed the share price to add gains.
- Our underweight position in Financials cost the Portfolio some relative performance as the sector outperformed. More positively, our holding of French banking group BNP Paribas was a rewarding position for the Portfolio following the release of encouraging quarterly results in July that pointed to very solid retail revenue growth in the domestic French market. On top of this, the company's corporate banking division also performed strongly, which was well received by investors. Additionally, our holding of Dutch-listed ING continued its recent positive momentum.

¹ Source: UBS as at 4 August 2017

Pioneer Funds – European Equity Value**Morningstar Rating™ ★★★★★**

	MTD	YTD	3 Yrs Ann	5 Yrs Ann
Pioneer Funds - European Equity Value A EUR ND	1.30%	7.35%	7.63%	11.68%
MSCI Europe Value Index	0.32%	4.85%	4.07%	9.90%
Morningstar Europe Large-Cap Value Equity	0.24%	6.19%	6.01%	10.17%

→ Pioneer Funds – European Equity Value (A EUR ND) significantly outperformed its benchmark, the MSCI Europe Value, in July.

→ A disciplined value approach that focuses on companies with a viable and established strong economic business model, which is reflected in attractive returns on capital. We invest in companies that trade at a significant discount to our assessment of their intrinsic value – margin of safety investment. This value-quality combination should yield above average investment returns over time and help avoid permanent impairment of capital.

→ At sector level, the Portfolio had a positive contribution from Industrials, Healthcare, and Information Technology. In contrast, Materials detracted. Within Industrials, our holding of capital goods company FACC was a very rewarding position for the Portfolio. In July, the company reported very strong quarterly results that saw revenues increasing by 12.9% year-on-year, and EBITDA growing by 100% to 18.4m euro, with strength shown across all business segments. On the other side, the Portfolio lost some ground within Materials predominately as a result of our lower exposure to the mining names which outperformed during the month.

Pioneer Funds – European Research**Morningstar Rating™ ★★★**

	MTD	YTD	3 Yrs Ann	5 Yrs Ann
Pioneer Funds - European Research A EUR ND	0.16%	5.03%	5.77%	9.75%
MSCI Europe Index	-0.37%	6.28%	6.44%	10.17%
Morningstar Europe Large-Cap Blend Equity	-0.29%	6.61%	6.42%	9.61%

→ Pioneer Funds – European Research (A EUR ND) outperformed its benchmark, the MSCI Europe, in July.

→ At sector level, the Portfolio had a positive contribution from Healthcare, Industrials, and Information Technology. In contrast, Materials detracted.

→ In Healthcare, our holding of Lonza performed strongly. In July, the company reported very strong H1 results beating consensus expectations in terms of both sales and EBIT, which in addition to a confirmation of their 2017 guidance supported the share price. Also worth noting is that the company issued encouraging 5-year guidance out to 2020, and given the management team's successful track-record in delivering on its guidance was well received by investors.

→ The Portfolio lost some performance within Materials. Firstly, our lower exposure to the mining names was a headwind for the Portfolio, as the higher base metal prices that we saw during the month allowed these names to outperform. In addition, our holding of speciality chemical company Croda underperformed despite releasing results that were in-line with expectations. Revenues rose 17%, with EBIT up 15.7%. However, margins declined by 20bps, which was attributable to the stronger growth in the lower margin, Performance Technologies business, which caused some weakness in the name.

Pioneer Funds – European Potential**Morningstar Rating™ ★★★**

	MTD	YTD	3 Yrs Ann	5 Yrs Ann
Pioneer Funds - European Potential A EUR ND	0.39%	11.88%	8.87%	14.03%
MSCI Europe Small Cap Index	1.07%	11.66%	12.66%	17.08%
Morningstar Europe Mid-Cap Equity	0.76%	12.50%	11.58%	13.66%

→ Pioneer Funds – European Potential (A EUR ND) underperformed its benchmark, the MSCI Europe Small Cap in July.

→ At sector level, the Portfolio had a positive contribution from Consumer Discretionary and Materials. In contrast, some of our holdings within Industrials and Information Technology detracted.

→ Within Consumer Discretionary, our holding of auto-component manufacturer Faurecia was a rewarding position for the Portfolio. During the month, the company reported another set of very encouraging results that saw solid organic growth momentum continuing. Importantly, margins increased across all key divisions. Looking ahead, management guidance for FY17 revenues was increased which was an additional support for the share price. Also of note was the positive contribution of UK-listed property developer Barratt Developments that issued quite an upbeat trading statement during the month.

→ The Portfolio lost some ground within Industrials. At stock level, our holding of wind turbine manufacturer Siemens Gamesa (formally Gamesa), detracted following the release of quarterly results. Revenues missed consensus expectations, which can be attributed to some weakness in the Indian and UK onshore turbine market, which offset the more positive growth elsewhere. On the positive side, management confirmed expected synergies that helped to offer some support to the name.

Pioneer Funds – European Equity Target Income

	MTD	YTD	3 Yrs Ann	5 Yrs Ann
Pioneer Funds - European Equity Target Income (A EUR D)	-0.53%	3.68%	3.40%	8.52%
→ For the distributing unit classes, the interim dividend distribution was made at the end of the month and at this point, we remain on course to deliver our 2017 target ² . The Portfolio performed broadly in line with the European equity market in July.				
→ From a positioning standpoint, July was quite an active month in terms of portfolio adjustments. Firstly, we added a new position in Swiss energy management company Landis & Gyr, which had its IPO during the month. The company specialises in smartmeter production and has delivered a very strong growth profile. From an income viewpoint, we are particularly encouraged by its robust FCF generation, which we believe is supportive for its dividend yield of c.4%, which we see as sustainable going forward. We also added international mining company BHP Billiton to the Portfolio. Given the underperformance of the stock year-to-date, we believe that the current valuation remains attractive.				
→ On the other side, we reduced our holding on Spanish utility Iberdrola following its dividend distribution. We also reduced our position in Italian banking group Intesa SanPaolo following dividend payment. This name has performed strongly in recent months against the backdrop of a more favourable operating environment for Italian banks in the domestic market, and as a result, we decided to take some profit.				
→ From an option perspective, we were quite active in July writing a total of 22 options, 17 on the call side and 5 on the put side.				

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