

## Equity Market Review

September is quite an important month, as investors returned to their desks following the summer period. Sentiment appeared to be buoyant as the broad European equity market added gains of over 3.5%, breaking the consolidation trend that we saw during the summer months. Looking at the quarter, European equities added c.2.5%, thanks to the gains of recent weeks. From a sector perspective, the more cyclical areas of the market have regained their leadership with Energy, and Industrials driving the move higher in September; while defensives such as Consumer Staples and Utilities have lagged.

Rising tensions on the Korean Peninsula have been largely brushed aside, as investors appeared to focus on the improvements in underlying economic growth, and the positive earnings momentum. While the victory of Angela Merkel in the recent German election was far from comfortable, the result points to a continued decline of political risk within the region, with the risk now shifting to other geographies. Outside of politics, we continued to see economic expansion within the Eurozone economy throughout the quarter, with PMI releases remaining comfortably above the key 50 level. Perhaps more importantly, the Q2 earnings season has been encouraging once again with European corporates delivering double-digit earnings growth. The one caveat to this positivity is the high level of investor expectations, entering results season – which left little room for disappointment. On the day of release, companies which exceeded expectations, added only very marginal gains; while those that missed, underperformed quite significantly. We remain of the view that we should see further upside, driven by the ongoing delivery of earnings growth. However, expectations within the market are high so should momentum slow, we are cognisant that this could cause some weakness. Our focus continues to be firmly on those individual investment cases that we believe could deliver sustainable earnings over the medium-to-long term.

## Outlook

The more positive market environment which we saw in September has helped to validate our more optimistic view for the asset class. Both global and European macro indicators are continuing to point to an improving underlying economy. Earnings growth remains supported, political risk appears to be shifting away from Europe and valuations remain relatively attractive when compared to other asset classes. Euro strength in recent months has grabbed headlines, and perhaps been a headwind for European equity markets; however, this appears to have stabilised, and we do not believe it will derail sentiment at this point. Recognising the present potential for market rotations, we continue to seek balance within our Portfolio. We are continuing to seek names with the potential to deliver consistent and reliable earnings growth, which we see as the key catalyst for further upside.

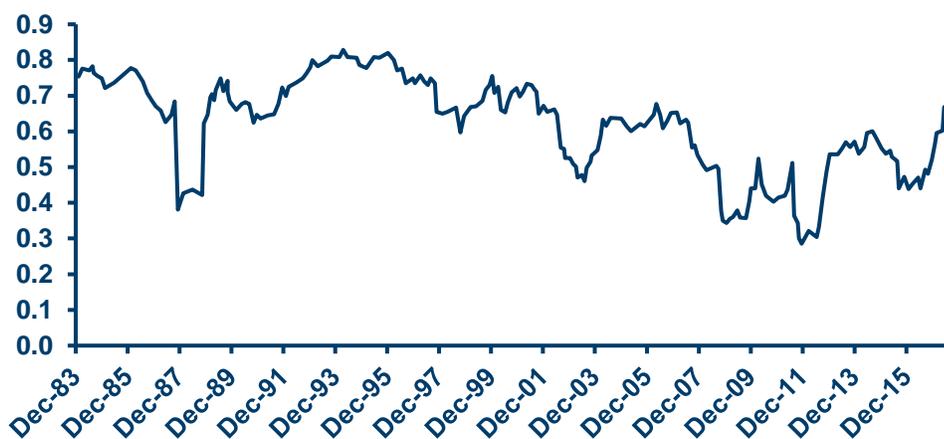
## Thought of the Month

### A More Fertile Ground for Stock Picking

Volatility remains suppressed across global equity markets, as investors continue to second-guess what could upset this status quo. With the stars continuing to align for European equities with better economic growth, positive earnings momentum and of course falling political risk - it is hard to see clouds on the horizon. However, perhaps investors are overlooking the volatility at single-stock level, as the focus remains firmly fixed on the overall market. What we have seen, is a notable uptick in stock specific risk. Perhaps this has gone unnoticed by some, but it is certainly a welcome development for fundamental stock pickers.

### Stocks Became Much More Idiosyncratic Starting in Fall 2012, when Stock Specific Risk Increased from 30% to its Current Value of 70%

#### Median 252-Day Rolling Stock Specific Risk Through Sept. 22, 2017



Source: ClariFi, Morgan Stanley Research

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

	MTD	YTD	3 Yrs Ann	5 Yrs Ann
Pioneer Funds - Top European Players A EUR ND	4.94%	7.32%	5.64%	9.17%
MSCI Europe Index	3.89%	9.56%	6.69%	10.20%
Morningstar Europe Large-Cap Blend Equity	3.61%	9.45%	6.69%	9.58%

- Pioneer Funds – Top European Players (A EUR ND) significantly outperformed its benchmark, the MSCI Europe, in September.
- At a sector level, the Portfolio had a positive contribution from Consumer Discretionary, Materials, and Consumer Staples; while in contrast, Financials detracted.
- Within Consumer Discretionary, our holding of auto and aerospace components company GKN added gains, following the announcement of management changes at the firm with a new CEO and CFO being announced. This announcement has been viewed positively by investors. Additionally, speculation that the company may consider spinning out its aerospace division was an additional support for sentiment towards the name. Also of note, was the positive contribution of international auto-components company Continental, which recovered from some recent underperformance.
- Financials cost the Portfolio some relative performance in September. Our holding of Swiss-listed insurer Helvetia detracted. Despite releasing robust underlying results at the beginning of the month, the share price continued to underperform as investors appear to remain cautious regarding the strategy of the new management team. More positively, our holding of French-listed banking group BNP Paribas continued to be a rewarding position for the Portfolio. While company specific newsflow was light, the share price was a natural beneficiary of the improving economic releases that we saw in recent weeks, given the company's sensitivity to the domestic European economy.

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

	MTD	YTD	3 Yrs Ann	5 Yrs Ann
Pioneer Funds - Euroland Equity A EUR ND	5.17%	11.67%	9.07%	12.01%
MSCI EMU Index	4.44%	13.11%	8.96%	12.27%
Morningstar Eurozone Large-Cap Equity	4.22%	12.57%	8.61%	11.37%

- Pioneer Funds – Euroland Equity (A EUR ND) outperformed its benchmark, the MSCI EMU, in September.
- At a sector level, the Portfolio had a positive contribution from Consumer Staples and Energy; while in contrast, some of our holdings within Consumer Discretionary detracted.
- Consumer Staples contributed positively to the Portfolio during the month. While the performance of our holdings was quite muted, the Portfolio gained some relative performance as stocks that we do not own came under pressure. Given the more positive market environment we saw, investors appeared to favour the higher beta areas of the market.
- Within Consumer Discretionary, our holding of Zara owner Inditex underperformed. The company reported decent H1 results, albeit slightly below consensus expectations, mainly due to a sharper than expected decline in gross margin. This, in combination with the Euro strength we have seen in recent months (company's cost base is more Euro focused), has dampened sentiment towards the name. We continue to like the underlying business model, believing that it is well placed to deal with the increasing challenges that the industry is facing, such as the growth in online retailing.

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

	MTD	YTD	3 Yrs Ann	5 Yrs Ann
Pioneer Funds - European Equity Value A EUR ND	6.04%	11.87%	8.45%	11.78%
MSCI Europe Value Index	4.47%	8.07%	4.55%	9.50%
Morningstar Europe Large-Cap Value Equity	4.06%	9.07%	6.55%	9.93%

- Pioneer Funds – European Equity Value (A EUR ND) significantly outperformed its benchmark, the MSCI Europe Value, in September; and remains significantly ahead year-to-date.
- 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 a sector level, the Portfolio had a positive contribution from Consumer Discretionary, Industrials, and Utilities; while in contrast, Energy detracted. Within Consumer Discretionary, our holding of auto and aerospace components company GKN added gains, following the announcement of management changes at the firm with a new CEO and CFO being announced. This announcement has been viewed positively by investors. Additionally, speculation that the company may consider spinning out its aerospace division was an additional support for sentiment towards the name. Also of note, was the positive contribution of international auto-components company Continental, which recovered from some recent underperformance. Staying with Autos, our holding of Faurecia also outperformed.

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

	MTD	YTD	3 Yrs Ann	5 Yrs Ann
Pioneer Funds - European Research A EUR ND	4.51%	8.89%	6.25%	9.77%
MSCI Europe Index	3.89%	9.56%	6.69%	10.20%
Morningstar Europe Large-Cap Blend Equity	3.61%	9.45%	6.69%	9.58%

- Pioneer Funds – European Research (A EUR ND) outperformed its benchmark, the MSCI Europe, in September.
- At a sector level, the Portfolio had a positive contribution from Consumer Staples and Materials; while in contrast, Utilities detracted.
- Consumer Staples contributed positively to the Portfolio during the month. While the performance of our holdings was quite muted, the Portfolio gained some relative performance as stocks that we do not own came under pressure. Given the more positive market environment we saw, investors appeared to favour the higher beta areas of the market.
- The Portfolio lost ground within Utilities. At stock level, our holding of Spanish-listed Iberdrola came under pressure following the announcement of a change in regulation regarding the remuneration of electricity providers in the region, which could potentially have a negative impact on medium-term revenues. This dampened sentiment towards the Spanish names during the month.

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

	MTD	YTD	3 Yrs Ann	5 Yrs Ann
Pioneer Funds - European Potential A EUR ND	6.15%	16.98%	10.23%	13.78%
MSCI Europe Small Cap Index	4.52%	16.00%	14.18%	16.68%
Morningstar Europe Mid-Cap Equity	4.46%	16.61%	12.92%	13.56%

- Pioneer Funds – European Potential (A EUR ND) significantly outperformed its benchmark, the MSCI Europe Small Cap, in September.
- At a sector level, the Portfolio had a positive contribution from Consumer Discretionary, Industrials, and Healthcare; while in contrast, some of our holdings within Information Technology detracted.
- Within Consumer Discretionary, our holding of auto-component manufacturer Faurecia continued to be a rewarding position for the Portfolio. In July, 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 has been a support for the share price in recent weeks.
- Our underweight position within Information Technology was a headwind for the portfolio as the sector outperformed in September. Of our holdings, Spanish-listed IT and defence systems company Indra cost some marginal performance in September. In general, sentiment towards the name appeared to come under some pressure following the release of a mixed set of Q2 results at the end of July. More positively, in Healthcare, the Portfolio gained ground as stocks that we do not own came under pressure as investors favoured the more cyclical areas.

**Amundi Funds Euroland Small Cap****Morningstar Rating™ ★★★**

	MTD	YTD	3 Yrs Ann	5 Yrs Ann
Amundi Funds Equity – Euroland Small Cap A EUR	4.62%	21.07%	14.92%	16.06%
MSCI EMU Small Cap Index	4.88%	21.85%	16.40%	18.72%
Morningstar Eurozone Mid-Cap Equity	4.73%	20.72%	14.44%	15.41%

- Amundi Funds Equity – Euroland Small Cap (A EUR) slightly underperformed its benchmark, the MSCI EMU Small Cap, in September.
- At a sector level, the fund benefitted from its positions on Real Estate, Financials and Energy. On the other hand, the fund suffered from its exposure on Materials, Health Care and Telecommunication.
- The fund was well-positioned on Cyclical and Financials, and benefitted from the positive economic momentum and the steepening yield curve, especially in Capital Goods (Dürr, Kinspan) and specialized financial companies (Cerved, Euronext).
- During the month, we reduced our cash by buying several new investment opportunities such as Elis, a professional laundry company that has just completed the acquisition of its English peer (Berendsen) to complete its presence in Europe, and benefit from cost synergies. We also invested in Indra Sistemas, a Spanish IT company facing a turnaround phase that should materialize in the growth of its business and the improvement of its margins; and in AMG, which operates a low cost mine in Brazil, that extracts a product entering the lithium manufacturing process - its price doesn't take into account the potential of the development of electric vehicles. Wendel holding was added to the Portfolio, because of the high discount of its market valuation compared to its net assets.

**Pioneer Funds – European Equity Target Income**

	MTD	YTD	3 Yrs Ann	5 Yrs Ann
Pioneer Funds -European Equity Target Income(A EUR D)	2.56%	5.04%	3.78%	8.33%

- September was another positive month for the income generation of the Portfolio, and we remain on course to deliver our 2017 target.
- From a positioning standpoint, September was a more active month in terms of Portfolio adjustments. We added a new position in luxury goods company Richemont, just before it makes its annual dividend payment. While the dividend yield is not the highest optically, we are particularly attracted to the company's strong earnings momentum and underlying business model. We also added a position in Nordic banking group Nordea. This is a name where we are attracted to the company's operating environment and strong capital position. Despite good business trends, the share price has been under pressure recently, and we took this as a good opportunity to add the name at a more compelling valuation.
- On the other side, we sold our holding of French supermarket and hypermarket operator Carrefour. The share price has underperformed given the increasing threat of discounters entering the market, which now appears to be a more structural headwind. As a result, we felt it prudent to sell the position and seek more attractive investment cases in other areas of the market.
- From an option perspective, September was quite an active month for our option writing strategy. As the core dividend season has ended in Europe, we have been more willing to increase the number of options written. September was a positive month for our strategy, writing 25 calls and 8 puts.

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