Quarterly Portfolio Update

*Amundi Funds II – Pioneer Strategic Income**

29 June 2018

BOND COMMENTARY

Market Review

While volatility pulled back from the high levels of the first quarter, markets continued to suffer from heightened volatility in the second quarter relative to the very low levels of 2017. Concerns about trade wars took centre stage, as President Trump more aggressively pursued tariffs against allies and adversaries alike. Fears that the new populist Italian government threatened the status quo of the Euro and European Union rose in late May, but abated as a new government was formed and officials toned down their anti-Euro rhetoric. Finally, the unexpected appreciation of the Dollar, which rose 5.7% from its mid-April low, as well as a continued rise in oil prices, which have climbed 23% year-to-date, including a 14% increase in the second quarter, contributed to a sell-off in emerging markets, particularly in countries with significant U.S. Dollar debt.

The Dollar appreciated in part due to a more hawkish FOMC, counterbalanced by a more dovish ECB. Citing continued strong GDP and employment growth and rising inflation, the FOMC raised rates in both of their March and June meetings, and brought forward projected rate increases to include two more increases in 2018. They did also, however, adopt a symmetric view around their inflation target in June, indicating they would not necessarily take a more aggressive approach to increasing rates should future inflation exceed target levels for a short time. Treasury rates rose over the quarter, and in June, led by short-term rates. While Treasury prices enjoyed a short-lived rally at the end of May, driven by a flight to quality on the Italian crisis, they quickly shed their gains and yields rose modestly into the end of June. The 2-year Treasury yield rose from 2.27% to 2.53% over the quarter. The yield curve flattened, as the 10-year Treasury yield rose from 2.74% to 2.82%, after peaking at 3.11% in mid-May; 30-year Treasury yields remained relatively unchanged over the period, ending at 2.98%. Inflation expectations rose from 2.04% to 2.13% over the quarter.

Investment grade corporates delivered their worst semi-annual return since 2013, as they continued to sustain losses over the quarter and the month.

Structured sectors and high yield assets generally outperformed Treasuries over the quarter and month. Investment grade corporates returned negative absolute and relative returns (vs. Treasuries) of approximately 1% over the quarter, and spreads widened from 109 bps to 123 bps in the wake of multiple factors: higher rates, trade fears, lower non-U.S. investor demand (who balked at increased currency hedging costs), deteriorating credit quality and high issuance due to increased M&A transactions. Agency MBS outperformed, delivering a 0.15% excess return, as rate volatility declined from the first quarter and the housing market continued to be strong, despite increasing rates and rising home prices. CMBS were flat to Treasuries, while ABS delivered 0.17% excess returns. High yield corporates enjoyed positive total and excess returns over both the quarter and the month, benefiting from their U.S.-focus, their higher yield and low default outlook. Over the quarter, they delivered positive total and excess returns of approximately 1%, as spreads remained almost unchanged, ending the period at 371 bps.

Emerging markets sustained the worst performance, led down by Argentina and Turkey. Overall sovereigns were down -4.1%, with high yield sovereigns down -7.3%. Corporates were down by -1.8%, with high yield down by -3.0%. The Dollar rose 0.9% relative to a broad basket of currencies, as rate differentials widened with the Fed's more hawkish posture. The Dollar rose 0.1% vs. the Euro and 1.8% vs. the Yen.

Portfolio Review

The Portfolio underperformed its benchmark, the Bloomberg Barclays U.S. Universal Index, for the month, quarter and year-to-date, respectively.

Second Quarter Attribution: The Portfolio suffered over the quarter from underperformance of non-Dollar currency exposures, as well as duration positioning and security selection.

For Professional Clients Only

*Prior to 16 February 2018, Pioneer Funds – Strategic Income

Marketing Material

Amundi ASSET MANAGEMENT

Positive:

- The Portfolio benefited from the sector allocation of the strategy, due primarily to exposure to non-benchmark sectors. While the 31% underweight to nominal U.S. Treasuries detracted from performance, this negative effect was more than offset by the benefit of the 3.7% TIPs exposure, the 12% overweight to CMOs, the 5% in ABS and the 3% in catastrophe bonds. In addition, the underweight to sovereign issues contributed to performance.

Negative:

- Non-Dollar currency exposure detracted significantly from performance. In particular, the 3% exposure to the Swedish Krona, that forms part of a proxy hedge of long Swedish Krona/Norwegian Krone, short Euro, underperformed the Euro by 1.6% and the Dollar by 7.0% over the quarter. Despite strong GDP growth, the Rijksbank delayed rate increases over the quarter as inflation disappointed. The position peaked at a 3.6% underperformance of the Euro from quarter end to early May, and recouped over half of that underperformance in June.
- Security selection detracted from performance, due primarily to underperformance within industrials and particularly of exposure to a major aluminum producer in Russia, Rusal. In early April, the U.S. Treasury designated Rusal as subject to sanctions, due to its majority ownership by Russian oligarch, Oleg Deripaska. Deripaska has agreed to reduce his stake, at which point the U.S. Treasury has indicated it will fully lift sanctions.
- The overall relative short duration position underperformed, due primarily to the rally in German yields. While the Portfolio was positioned with a relative short duration position of 1.5 years relative to the benchmark, almost half of the exposure was achieved through a short German Bobl/Bund position, which sustained a loss over the quarter. German yields fell over the quarter, in response to the Italian crisis as well as a more dovish ECB.
- The exposure to BBB issues within financials and industrials, as well as high yield emerging market government-related issues hurt performance.

June Attribution:
The Portfolio modestly underperformed the benchmark for the month, primarily reflecting the negative impact of security selection.

- Security selection was hurt by underperformance within non-investment grade-rated financials, including European bank issues, as well as by BBB industrials, including select midstream exposures

Outlook & Positioning

We believe U.S. GDP growth may accelerate to almost 3% over the year, benefiting from significant tax cuts deregulation and stronger fixed investment spending. Solid employment and income growth may continue to support consumption and the housing market. Higher corporate profits, benefiting from strong global growth, tax cuts, and the 100% expensing of fixed investment, may also support increased fixed investment.

Globally, we believe the Eurozone and Japan may also grow above their potential GDP, benefiting from still supportive monetary policy. Eurozone growth may be lower than that achieved in 2017, as exports may suffer from the lagged effects of a stronger Euro. In addition, political risk has risen in Europe, with more populist governments in Italy and Spain representing a significant risk for the Euro. While China's growth may moderate in light of its goals to rein in credit growth, we believe a modest decline in China's growth will not disrupt overall Asia or global GDP growth.

Global growth may moderate, however, in the face of Trump's more aggressive protectionist trade policy. While the U.S. and China are currently negotiating trade imbalances, Trump has been aggressive against U.S. allies.

We continue to believe that inflation may surprise to the upside on a number of fronts in 2018 and that the FOMC may be behind the curve in raising rates. Nascent signs of wage growth acceleration, service inflation, tighter labour markets in key industries such as homebuilding, higher import prices resulting from tariffs, and more restrictive immigration policies may contribute to higher price levels in the coming year. In addition, producer price indices are already increasing, on the heels of higher oil and metals prices. Fiscal stimulus, including the tax cuts and

higher spending from the budget has the potential to further fuel inflation.

The Portfolio continues to be positioned for rising interest rates and a solid economy. The Portfolio holds the following positions:

- Overweight to diverse credit sectors, underweight to U.S. Treasuries. Most US government debt is unattractive, while credit sectors may benefit from stronger growth, lower taxes, and less regulation.
- The Portfolio holds a relative short duration position of 1.4 years compared to the Portfolio's benchmark. We continue to believe the market may be behind the curve, given solid GDP growth, and little slack in the labour market. At 2.0%, core PCE has reached the Fed's inflation target. With the unemployment at 4.0%, well below the FOMC's estimated NAIRU level, we anticipate that continued wage inflation will help drive core PCE to higher levels through the year.
- We hold long-duration TIPS, which should help protect the Portfolio in the event that inflation surprises to the upside. We believe inflation expectations could overshoot; in addition, these levels remain below long-term averages.

- The Portfolio holds a small underweight to agency MBS; including the 12% in non-agency MBS, the Portfolio continues to remain significantly overweight to the RMBS sector. The Portfolio has, however, reduced agency MBS over the quarter, based on less attractive relative value. Fundamentals within the housing market remain positive, spurred by strong GDP growth and employment, and still affordable mortgage rates. In addition, we believe that agency MBS offer investors reasonable value at current spreads. While certain investors are concerned about the increased net supply of approximately $400 billion forecast for 2018, we believe that the market has already priced in this forecast (which we witnessed earlier in 2017 when the Fed first announced the taper plan). The Federal Open Market Committee has been fully transparent in setting forth its tapering program with respect to both U.S. Treasuries and agency MBS. Moreover, agency MBS already extended duration in the fourth quarter of 2016, in response to higher rates, and we do not foresee significant extension risk going forward. High quality non-agency RMBS remain reasonably attractive, with pristine credit metrics and trade approximately 1.375 points behind agency MBS, translating into a spread pickup of 26-28 bps vs. agency MBS.
- We believe structured securities including ABS and CMBS generally offer more attractive relative value than corporates. In addition, consumer and housing-related ABS issued after the financial crisis offer better credit protection for the same ratings, while we have witnessed more lenient treatment by the rating agencies with respect to investment grade corporate ratings. We have increased our ABS exposure over the past quarter.
- The Portfolio holds a small underweight to investment grade corporates, composed of a small overweight to U.S. investment grade and an underweight to European investment grade. While spreads in broad investment grade corporates have widened recently, these spreads reflect lower average quality and overall longer duration relative to their historical levels. In addition, leverage in investment grade corporates is significantly higher than in the past, with 23% of the market trading at greater than 4X leverage, compared to 11% five years ago. Finally, we believe issuance to fund M&A transactions will continue over the year, with the potential to further increase leverage in the investment grade sector. We continue to believe, however, that the corporate sector will enjoy relatively strong fundamentals, due to the continuing benefit of lower taxes, less regulation and strong U.S. growth. However, corporates face greater downside risk than agency MBS, in a higher volatility environment that may result from a negative outcome on trade policy, an unexpected change in central bank policies or from an unexpected slowdown in global growth.
- We have carefully positioned ourselves within the corporate sector, to underweight exposure to sectors most vulnerable to M&A risk and higher leverage, including technology and pharma; we also have a significant underweight in the media and telecom space, which are more highly leveraged and face technological risk. We continue to hold an overweight to financials in banks, insurance and REITS. We had reduced the bank overweight, including European exposures, coming into 2018, based on valuations. We continue to believe the banking, insurance and REITS offer attractive relative value and may perform well, despite a rising rate environment. While spreads are modestly lower than the broad corporate benchmarks, financials offer lower event risk of share repurchases or credit impairment due to M&A activity. Banks are currently focused on improving capital ratios to meet regulatory requirements. Banks should also

benefit from rising global yields and steepening yield curves.

- We continue to hold an overweight to the energy midstream sub-sector, a sector that shows relatively less sensitivity to oil price volatility. We expect continued spread tightening in the space, which remains one of the wider-trading subsectors in investment grade. The mid-stream space is benefiting from increased production, and is building new pipelines to transport that production to market. While Saudi Arabia and Russia have indicated plans to increase production, we believe that, with Venezuela's reduced production, oil prices may be range-bound.
- The Portfolio includes certain emerging markets exposures. We reduced emerging market exposures over the past year, based on extended valuations. Over the past month, we further reduced certain sovereign and supranational exposures, related to countries more vulnerable to oil price increases and with greater external debt, on increased risks we see facing certain emerging markets. We continue to believe certain emerging markets are benefiting from stronger global growth and increased domestic demand.
- We believe the Dollar may be range-bound going forward, or may modestly appreciate in the shorter term should Eurozone growth continue to disappoint. Given the higher volatility associated with currencies, we have significantly reduced our emerging market currency exposures.

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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Date of publication: 12 July 2018.
Document ID: 544659