

Monthly Portfolio Update

Pioneer Funds – European Equity Target Income

31 August 2017

Equity

COMMENTARY

Market Review

The broad European equity market lost approximately 1% in August in what was a seasonally quiet month for the asset class. Looking more closely at sector performance in August, we saw a preference for the more defensive sectors with Utilities and Real Estate outperforming, while Financials lagged. This more cautious market environment appeared to be fuelled by the increasing investor nervousness around the ongoing geopolitical situation in North Korea. Furthermore, investors continue to rotate out of the “Trump reflation” trade as the Trump Administration’s credibility to enact its pro-growth policies continues to be called into question. With volumes in the market seasonally light, the impact of the more negative sentiment appeared to be magnified.

More positively, August drew to a close what was a generally encouraging earnings season for European corporates – albeit not as stellar as that seen during the first quarter of the year. From a sector perspective, cyclical names outperformed the defensives in terms of both revenues and earnings, with Banks leading the way. Another interesting point to take away from the most recent reporting season has been the outperformance of domestically focused Euro area companies in comparison to their export orientated peers, pointing to further evidence of the continued economic improvement within Europe. We continue to believe that the key supports remain in place; with robust earnings growth, a more stable political backdrop, and continued inflows, helping to bolster sentiment as we move into the final months of the year.

Portfolio Review

August was another positive month for the income generation of the Portfolio, and we currently remain on course to deliver our 2017 target. The Portfolio performed broadly in line with the European equity market.

From a positioning standpoint, we have increased our holdings within Energy, adding to our positions in both ENI and Total. As well as offering compelling dividend yields of 6%, and 5.5% respectively, we believe the current valuations are attractive. We took the opportunity to increase our holding of international pharmaceutical and materials science company Bayer at a more attractive valuation, given the recent share price underperformance. We continue to believe that the company could be able to deliver high, single digit EPS growth through to 2020, driven by the ongoing rollout of new pharmaceutical products and synergies, as a result of the recent Monsanto transaction.

Similarly, we recently increased our holding of international tobacco company British American Tobacco. We see the company as being quite well positioned on a global basis with attractive diversification across regions. For us, we see the business model as being relatively robust, and this should sustain the attractive dividend yield of almost 4%.

On the other side, we have reduced our exposure to the Financials sector in recent months. Recognising the strong performance we saw in the early summer period, we now believe that further upside for the sector may be more limited. In August, we reduced our holding of Unibail Rodamco.

In a similar light, we reduced our holding of technology hardware manufacturer Nokia following the recent strong performance. We also reduced our holding of French-listed carmaker Renault, with a belief that more compelling investment cases could be found in other areas of the market.

Finally, we sold our holding of French hypermarket operator Carrefour. We believe that the operating environment for the hypermarket business in France is facing increased competitive threats from both online players and the increased emergence of discount stores.

From an option perspective we were more active in August. As the core dividend season is now over in Europe, we were reasonably active in writing options on names which had already distributed their annual

dividend. This allowed us to gain additional income, while tactically reducing exposure to selected stocks.

Top 10 Holdings	Portfolio Weight
Orange	3.4%
Engie	3.3%
ING Groep	3.0%
ABN Amro	2.8%
Nestle	2.8%
HSBC	2.7%
Total	2.7%
ENI	2.7%
British American Tobacco	2.3%
Atlantia	2.3%

Source: Amundi Asset Management as at 31 August 2017

Outlook

Despite a weaker tone in August, we continue to remain constructive in our outlook for the asset class as we move into the latter half of 2017. Both global and European macroeconomic indicators are continuing to point to improved fundamentals. This has supported earnings growth for European corporates as highlighted in the most recent earnings season. The more subdued market environment which we have seen in recent months coupled with the continued upward trend in earnings has helped to dampen valuations, with the MSCI Europe now trading at a 12 month forward P/E of c.14.5X. While this is above the long term median valuation, we believe that we could see further upside provided that companies continue to grow their earnings. Within our Portfolios, we are continuing to seek balance, recognising that the potential for sectorial rotations remain prevalent within the market. We continue to focus on names which can deliver reliable earnings growth, which we continue to believe could be the primary driver of further upside.

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