Our Edge in Emerging Markets Fixed Income
Experience + Research + Performance

→ The Global Investor Investment Excellence Awards 2015 has named Pioneer Investments 'Fixed Income Manager of the Year: Global' for the second consecutive year, recognising the strength and depth of our Fixed Income range across Europe, the U.S. and Emerging Markets.

→ This prestigious award was based on key achievements over the last 12 months and attributes that separate us from peers/competitors, with a particular focus on innovation, the range of products on offer and global presence.

→ In this piece, we highlight our key strengths in Emerging Markets Fixed Income:
  o Experienced and Resourced Team – Portfolio Managers and analysts have on average 17 years’ experience investing in Emerging Markets.
  o Research Driven – Research is at the core of our investment process incorporating macro views and in-depth fundamental credit research.
  o Performance – outperformance versus benchmark of our flagship fund, Pioneer Funds - Emerging Markets Bond, over three and five year periods.

We offer several Emerging Markets Debt strategies, which enable us to access some of the most compelling opportunities within the Global Fixed Income universe.

At its core, successful Emerging Markets Debt investing (EM) is about anticipating changes in the market’s willingness to pay for risk. At Pioneer Investments, our goal, in building a process, is to understand the market’s expectations in a structured way. We adopt a disciplined approach to mapping change, qualifying and quantifying unknowns, while seeking to reduce risk through analysis.

We adopt an active and flexible approach to identify sources of potential return in heterogeneous and semi efficient markets, inside a risk-managed framework.

Experience & Established Investment Team

Core to our philosophy is a veteran management team complemented by specialist expertise, offering investors the benefits of cumulative success. We place teamwork at the heart of everything we do. Our experienced team of portfolio managers and analysts work closely together to build flexible, efficient portfolios, leveraging on 17 years’ experience managing EM portfolios. The team manages approx. €5.8bn in EM fixed income assets.

The Head of Emerging Markets Bond and High Yield at Pioneer Investments, Yerlan Syzdykov, has been involved in the management of our EM Debt strategies since 2000. He has played a key role in defining and evolving our investment capability in this area.
Research Driven, Conviction-Based

Research Process

Research is at the core of our investment process incorporating macro views and in-depth fundamental credit research. We employ a rigorous research process to identify our highest conviction investments.

Key features of our prevailing strategy include:
- Focus on identifying the best opportunities across the EM universe
- Team of career analysts, organised on a sector specialist basis
- Supported by EM dedicated team of Macro economists
- Propriety risk budgeting system that allows Portfolio Managers to understand and attribute risk positions across Portfolios
- Benchmark aware but not constrained

Consistent Performance

Pioneer Investments has delivered consistent performance across our range of funds including our flagship fund, Pioneer Funds – Emerging Markets Bond.

Relative Performance versus Peers

Source: Morningstar as at 31 July 2015. Performance is based on Class A EUR non-distributing units net of fees. The full legal name of the fund is Pioneer Funds – Emerging Markets Bond. Past performance is no guarantee of future results.

What sets us apart?

Historically, Fixed Income investing in EM has been macro driven. If successful, the output is a comparison of domestic policy, which can (or should) lead to an efficient allocation through cost of capital arbitrage.

We like this approach, but note that it is constrained by a shortage of data and requires professional analysis to add value to the process. Market deepening has created a further challenge to the traditional “top down” approach. As sovereign bonds have given way to corporate credit, in EM, investors have had to consider a new layer of risk and potential reward.

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Consequently, it has become increasingly common to add specialists to the process, specifically, analysts on companies and economists on macro analysis. At Pioneer Investments, we have increased our capacity in this area, having added two new members to our economist team based in London. The portfolio management team also has access to 10 credit research analysts with 12 years’ experience, on average.

**The Investment Process & Philosophy**

The Pioneer Investments’ process integrates three distinct components. Two of the three components, macro and fundamental analysis, seek to maintain views on countries and domestic companies. The third, deploys risk budgeting and position sizing efforts into portfolio construction. The overall goal of the process is not just the efficient allocation of capital, but also an awareness of market risk and the employment of strategies that seek to avoid permanent capital impairment.

With risk budgeting, the investment team deploys a tool that guides them in risk allocation, by assisting them to quantify the Portfolio’s exposure to ex ante risk. This allows us to allocate toward or away from risk as our process dictates.

Our investment philosophy contends that market consensus is, sometimes, not wholly accurate. In EM, different risk factors frequently contribute to mispricing; these include macro factors (growth rates, commodity price volatility, monetary policy, fiscal policy), micro factors (company performance, competitive environments, margins), as well as, technical factors (portfolio flows, global policy, related market valuations).

Additionally, a quantitative view across portfolios can often help us to identify inconsistencies in position size and therefore smooth portfolio return. For this, we employ our propriety Risk Budgeting system for portfolio construction and risk management.

**Allocation and Selection**

**Allocation across the Classes**

Once we have established a macro-economic view, around domestic and international policy direction, we then consider allocation and selection. We look at the available returns, focusing on identified areas of attraction and sustainable liquidity.

Where we see a currency likely to weaken, our bias would be to target exposure to companies that sell internationally, as we believe they are likely to become more competitive in a weakening currency environment. Conversely, in a strengthening environment, we tend to look for more domestically focused players such as banks, consumers or industrials targeting the local market.

In credit vs sovereign selection, we try to identify a likely return profile for the local sovereign and then look to compare that target return with potential available return from corporate debt.
Summary

The expertise required to generate outperformance in a sovereign-driven market is materially different from that required to perform in the corporate credit-driven EM, which exist today.

Over the last 20 years, the asset class has moved to discount a market place that reflected inefficient, fixed monetary policy substantially giving way to open markets, wider trade patterns and greater global market share. Our contribution has been the allocation of capital to those issuers that we felt demonstrated higher standards of capital management, which has drawn us away from sovereign exposure toward the credit arena.

We have built a research team (including both generalist and specialised talent) that strongly complements our portfolio construction capability, while simultaneously deploying supporting tools including risk measures, return projections, due diligence structures and collaboration.

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