The Great Rebalancing: Chinese Consumers Making their Global Presence Felt

Angelo Corbetta, Head of Asian Equity
Riccardo Sicheri, Senior Analyst – Energy & Industrials
6-7 June, Dublin
Agenda

The Process: A Collaborative Investment Approach

The Fund: Delivered Strong Results

The Chinese Economy: Upgrading Industrial System, Rising Middle Income Consumers

Investment Themes: The Environmental Cost - Risk/Opportunities

Appendix
Investment Philosophy
Pioneer Funds – China Equity

- **Active, team-based** investment management approach
- **Top-down macroeconomic research** to provide a strategic direction for our portfolios
- **Bottom-up research** to uncover unique investment ideas
- **Active risk management** to mitigate downside risk
Collaboration Between Portfolio Management and Research Investment Process

IDEA GENERATION
- Research
- Sector Reviews
- Company Meetings
- Quantitative Screening
- Global Perspective
- Benchmark

BUILD INVESTMENT CASE
- Opportunity
- Stock Research Meeting
  - Fundamental Analysis
  - Critical Assumptions
  - Valuation
- Action List
- Accountability

PORTFOLIO CONSTRUCTION
- Portfolio Objective
- Risk Considerations
- Stock & Sector Limits
- Performance Attribution
- Sell Discipline
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Appendix
## Strong Results Relative to Peers

Performance in EUR (Net) and Morningstar Rating

<table>
<thead>
<tr>
<th>Fund/Index</th>
<th>YTD (30 April 2013)</th>
<th>1 Year</th>
<th>3 Years Ann.</th>
<th>5 Years Ann.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pioneer Funds – China Equity Class A EUR Non-Distributing</td>
<td>-0.11%</td>
<td>+5.97%</td>
<td>+0.67%</td>
<td>1.33%</td>
</tr>
<tr>
<td>MSCI China 10/40 Index</td>
<td>-3.44%</td>
<td>+4.59%</td>
<td>+0.74%</td>
<td>1.06%</td>
</tr>
<tr>
<td>Morningstar Rating*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Pioneer Investments as at 30 April 2013. Past performance does not guarantee and is not indicative of future results. Performance figures are in EUR.
Please note that benchmark was changed in June 2010 from MSCI AC Golden Dragon Index to MSCI China 10/40 Index. *Source: Morningstar Ratings: Copyright © 2013 Morningstar UK Limited. All Rights Reserved. The information contained herein: (1) may not be copied or distributed; and (2) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Source of benchmark data: MSCI. Please refer to slide 36 for full disclaimer.
Risk Analysis: 3 Years

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volatility</td>
<td>20.57%</td>
</tr>
<tr>
<td>Benchmark Volatility</td>
<td>22.07%</td>
</tr>
<tr>
<td>Downside Risk</td>
<td>14.96%</td>
</tr>
<tr>
<td>Sortino Ratio¹</td>
<td>1.24</td>
</tr>
<tr>
<td>Sharpe Ratio</td>
<td>0.13</td>
</tr>
<tr>
<td>Alpha</td>
<td>2.06%</td>
</tr>
<tr>
<td>Information Ratio</td>
<td>0.65</td>
</tr>
</tbody>
</table>

Source: Pioneer Investments as at 30 April 2013. Performance data for Pioneer Funds – China Equity Class A EUR. Past performance does not guarantee and is not indicative of future results. Performance figures are in EUR. ¹Source: Bloomberg. 1 Year Sortino Ratio as at 22 May 2013.
Stock Selection is the Key Driver of Performance
Historical Decomposition (in %) of the Ex-Ante Tracking Error

Source: Pioneer Investments. Data from 27 April 2012 to 26 April 2013.
Evolution of Style Exposure Adjusted by Style Volatility

Source: Pioneer Investments. Data from 8 June 2011 to 10 May 2013.

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Success Rate of Investment Decisions

Source: Pioneer Investments as at 10 April 2013. Hit Ratio = Number of Winning Investment Decisions/Total Number of Investment Decisions
Win Loss Ratio = Absolute Value(Average(Winning Investment Decisions Performance)/Average(Losing Investment Decisions Performance).
95% of the Portfolio Can Be Liquidated in Three Days
Liquidity Monitoring is Crucial for Risk Management

% Positions Liquidated (and Remaining Over 5 Trading Days)

Source: Pioneer Investments as at 11 March 2013.
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Policy Reform Could be the Engine of Economic Success
Commitment from the Chinese Government

- Gradual transition into a market-based economy by reducing state control
- Establish a more robust and adaptable regulatory framework
- Re-distributing income through urbanisation
Focus on High Quality, Sustainable Growth
An Evolving Business Model

Contribution to GDP Growth (in %)

- Sources: CEIC, Capital Economics.
More Wealth Leads to More Consumption
Redistributing Wealth from Urban to Rural Consumers

Further reforms expected to grow the lower- and middle-income consumers

China Equity Market
The Composite Indicator

MSCI China now trading at 9.1x forward P/E; non-financials at 11.6x P/E, 6% discount to the historical average of 12.4x

<table>
<thead>
<tr>
<th>Average Valuations</th>
<th>Now</th>
<th>Discount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Msci China = 12.25</td>
<td>9.1</td>
<td>26%</td>
</tr>
<tr>
<td>MXCN ex. Fin= 12.4 vs 11.6</td>
<td></td>
<td>6%</td>
</tr>
<tr>
<td>MXCN ex. Fin&amp;EN = 13.6</td>
<td>13.1</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source: Nomura

Source: MSCI. Data from January 2004 to May 2013. *The benchmark for Pioneer Funds - China Equity is MSCI China 10/40.
Dividend Growth Below Historical Average, but Less Volatile than EPS Growth

DPS Growth
Current 10.50%
LT Historical Average 19.72%

EPS Growth
Current 4.17%
LT Historical Average 13.27%

Source: Bloomberg, Pioneer Investments. Data from 29 July 1994 to 30 April 2013.
Market Appears Undervalued

The MSCI China Index* shows a 10% upside using a Dividend Discount Model based on the following conservative assumptions:

- Mid-term DPS growth of 8%
- Terminal DPS growth of 6%
- Discount factor of 9.44%
- Risk-free rate + Risk premium
- Payout 33% (existing and terminal)

*The benchmark for Pioneer Funds - China Equity is MSCI China 10/40.
From the Macro Picture to Portfolio Positioning

- Investment Themes: Positive on Clean Energies, Underweight ‘Old’ Energy stocks
- Key Underweights: Materials, Food and Beverage, Banks
- Key Overweights: Insurance, Utilities, Autos, Pharmaceuticals, Real Estate
Real Estate: Administrative Tightening Not Expected to Dampen Outlook

- The current situation is different from 2007 and 2009-2010, when prices across the entire country were rising
- Prices are rising, but at a moderate pace (i.e. well below the nominal GDP growth)
- Valuations are attractive – the sector is trading at a discount to historic NAV and P/E
- Solid underlying demand expected (10 million new units per year for the next five years)
Chinese Banking: Outlook

- We do not subscribe to the “Armageddon” scenario for bad loans in China, although we admit the sustainability of the banks’ business model is very questionable in the long term and it will bear the pressure of interest rates liberalization (a gradual process anyway).
- Most Chinese banks are well capitalized and their provision policy is well above the average of the sector in Asia.
- Our base case scenario is for non-performing loans to peak out at 6% and to remain there for a prolonged period of time.
- We remain comfortable with the banks’ LGFV exposure, as this has fallen to 8% of the sector assets, from 10% in 2009.
- Do not underestimate the growing role of the Wealth Management Industry and of the Fixed Income domestic markets.
- Valuations are attractive and are pricing in a lot of the bad news.
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Pollution Index in China Flasing Red
Global Particulate Matter (PM2.5) Pollution Index

Pollution Expected to Worsen in the Absence of Policy Action

Source: Deutsche Bank estimates, WHO, NASA. Data as at 30 April 2013.
Expected Reforms to Target Coal Consumption and Car Ownership

- Reduce coal consumption (potentially replace with gas)
- Increase use of clean technologies and energies
- Reduce car ownership by increasing the length of Railways and Subways
- Reduce car emissions via fuel emission standards and fuel efficiency

Sources of PM2.5

- Coal burning and secondary sulfate & nitrate, 45%
- Car emissions, 20%
- Construction/Industrial emissions, 20%
- Others, 15%

Source: Deutsche Bank estimates. Data as at 30 April 2013.
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Portfolio Managers

Buy Discipline
- Define investment case
- Identify discount
- Construct Portfolio

Sell Discipline
- Stop Loss strategy
- Target price reached
- Story changes
- Better opportunities

Quantitative Analysts
- Risk control
- Stock screening/idea generation
- Performance monitoring
- Quantitative financial models

Fundamental Analysts
- Career Analysts
- Company meetings
- Idea generation/Sponsor stocks

Bottom-Up, Research-Driven Team Effort
Fundamental Analysis
We Evaluate Markets Using Our Proprietary Models…
Quantitative Asset Allocation Model

Valuation

Source: Pioneer Investments as at 11 March 2013.

Earnings Revisions

Source: Factset, Nomura

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..To Determine Fair Market Values
Quantitative Asset Allocation Model

Source: Pioneer Investments as at 11 March 2013
Strong Focus on Risk Management to Mitigate Downside Risk

Risk Management

- Absolute Risk
  - Research
  - Anticipation of risks
  - Valuation

- Portfolio Risk
  - Tracking error ranges
  - Stock / Sector limits
  - Performance attribution
  - Others – e.g. Information Ratio, VaR

- Organisational Risk
  - Pre-trade compliance
  - Centralised trading
  - Internal trading limits
  - Transparency / communication
MSCI China now trading at 1.6x 12-month trailing P/B, or one standard deviation lower than the historical average of 2.3x

Source: Nomura
Chinese Inflation Falling

Source: Pioneer Investments, Bloomberg. Data from 30 April 2003 to 30 April 2013.
Biographies
Angelo Corbetta – Head of Asian Equity

Angelo Corbetta is the Head of Asian Equity at Pioneer Investments. He is a Co-Portfolio Manager of Pioneer Funds – China Equity with Nicholas McConway and co-manages Pioneer Funds – Asia (Ex. Japan) Equity with Manuele Moi and Nicholas McConway. He is also a Co-Portfolio Manager of Pioneer Funds – Absolute Return Asian Equity with Manuele Moi. Angelo has over 26 years of Asset Management expertise and has specifically focused on Far Eastern and Asian Equity since 1994.

Angelo has worked in the Asset Management division of UniCredit S.p.A. since 1992. He joined Credit Rolo Gestioni, (now part of Pioneer Investments), in 1992 as a Portfolio Manager on UK and German Equities. He began to focus mainly on the Far East in 1994 and within a year, he was managing all Asian portfolios. In addition, he spent some years managing US Equity and was the Head of the US Equity team from 1998 to 2001. Angelo relinquished this responsibility when he moved to Singapore to lead Pioneer Investments’ operations in the Far East and after 10 years spent working there, he relocated to our London office in 2011.

Prior to joining Pioneer Investments, Angelo worked as a European Equity Portfolio Manager with the Fininvest Group, Milan from 1988 to 1992. He began his career as a Financial Analyst on Italian stocks with Actinvest Group in Milan.

Angelo is a graduate in Business Administration from the Bocconi University Milan. He has also been a Senior Fellow of the Italian Federation of Financial Analysts since 1990.
Biographies
Riccardo Sicheri – Senior Analyst, Energy & Industry

Riccardo Sicheri is a Senior Analyst based in our London office where he is responsible for Energy and Industrial sectors across Global Emerging Markets. His main task is to deliver key investment ideas to the relevant Portfolio Management teams in London, Dublin and Boston through detailed analysis of markets, industry dynamics and company-specific factors.

Riccardo joined Pioneer Investments in 2012 from Norges Bank Investment Management, (NBIM), London and New York, where he was Senior Portfolio Manager with responsibility for Global Sector Portfolios focusing on Energy, Utilities and Infrastructure sectors. In this role, Riccardo managed a team of six Portfolio Managers located across NBIM offices in London, New York, Shanghai and Singapore and was directly responsible for stock picking and fundamental analysis for Asia, coordinating analytical effort across all regions. Riccardo began his career at JP Morgan Investment Management as Buy Side Analyst covering several EU sectors.

Riccardo holds the CPA designation and is CFA charterholder. He graduated from the University of Trento with a BA in Business and Economics and holds an MBA from Haas School of Business, University of California, Berkeley.
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