

Emerging Markets: Is Decoupling Back and Will GEMs Continue to Outperform?

John Pollen & Marcin Fiejka | June 2009



For Broker/Dealer Use Only at the European Capabilities Forum 24-26 June 2009
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Agenda

Market Review

Emerging Market Drivers

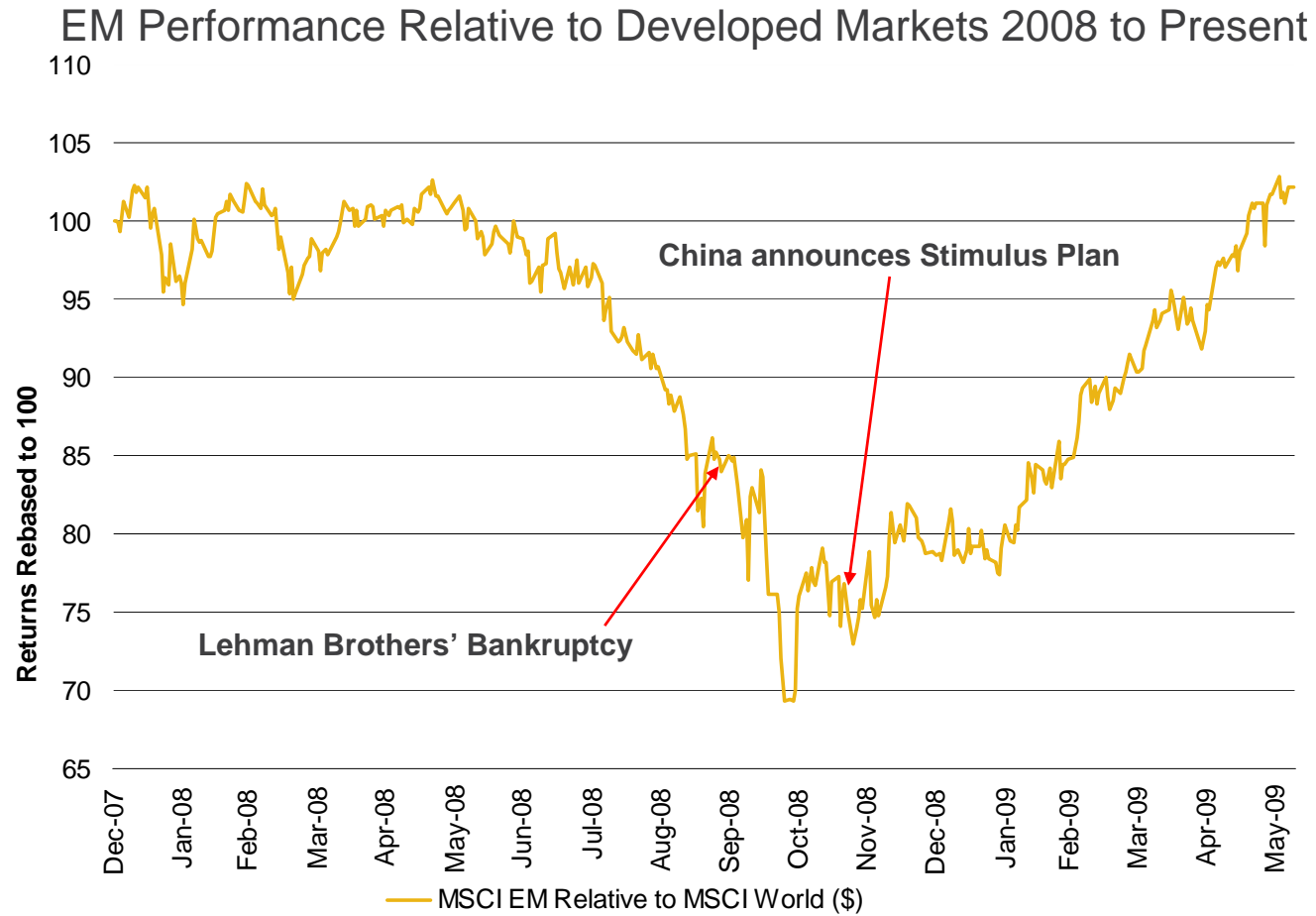
Portfolio Strategies and Positioning

Pioneer Funds – Emerging Markets Equity

Pioneer Funds – Emerging Europe and Mediterranean Equity

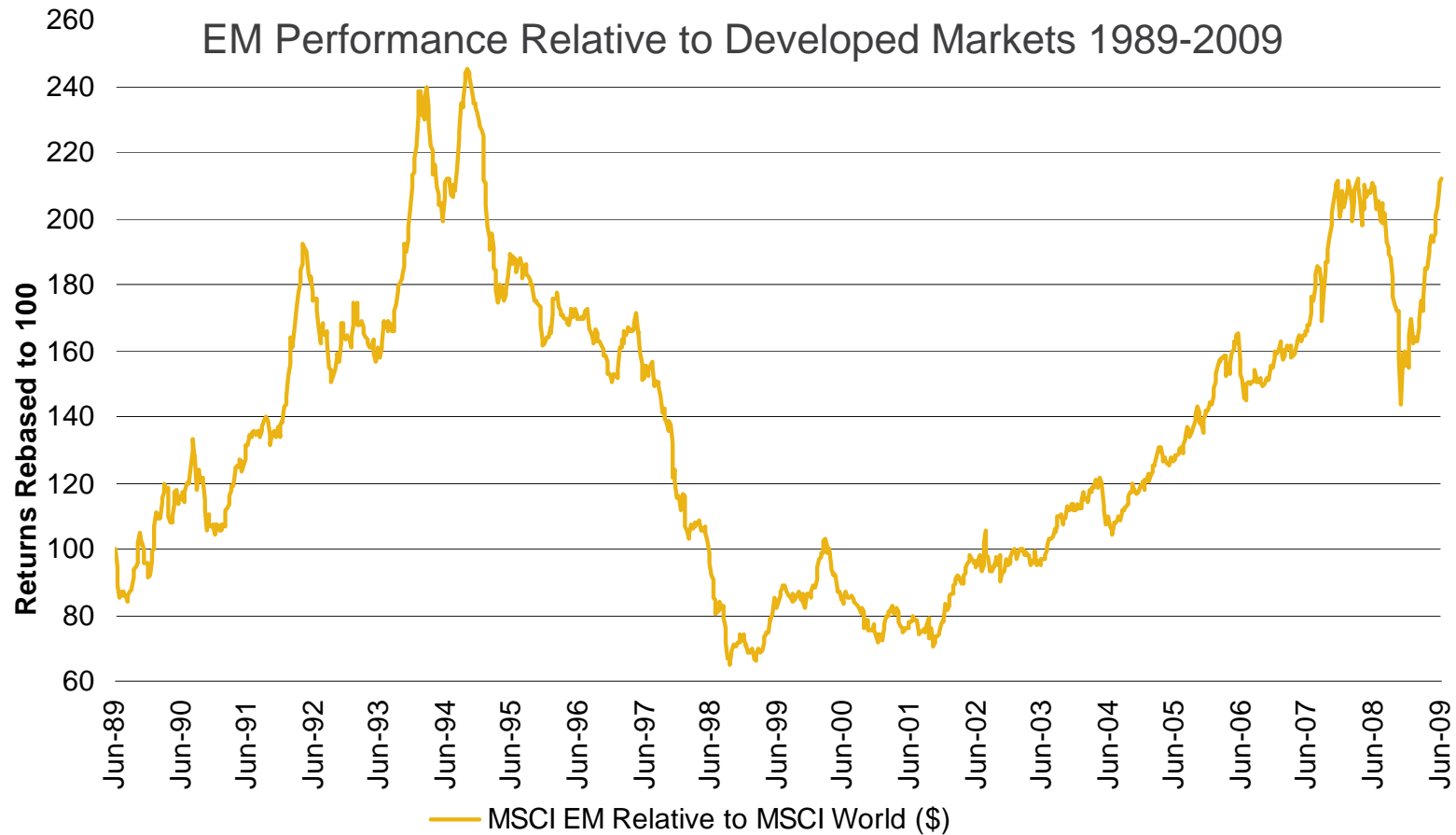
Outlook and Summary

Emerging Market Equities Decouple - Again



Source: Bloomberg, data to 5 June 2009

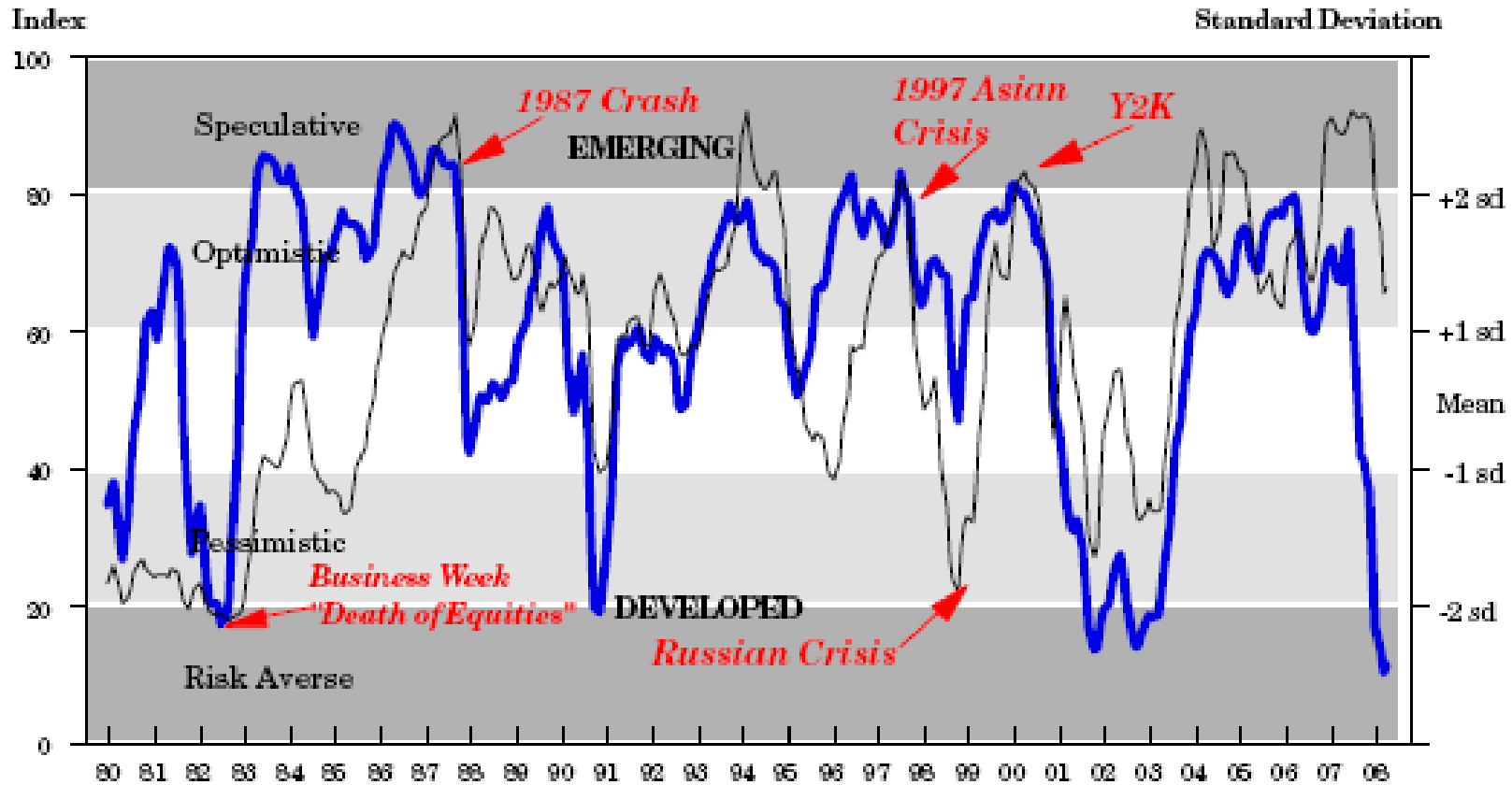
Emerging Market Equities: A 20 Year History



Source: Bloomberg, data to 5 June 2009

Investor Exposure (Sentiment) To Emerging and Developed Equity Markets

May/June 2008 – EM Still Optimistic; Developed Already Risk Averse



Source: CrossBorder Capital, Global Liquidity Update May/June 2008

Key Risks to Emerging Markets in 2008

What We Said This Time Last Year

- Inflation is back on the prowl
- Too good to be true – expect setbacks
- Capitalism fails and protectionism wins
- Escalating tensions in the Middle-East
- Reform in China
- Central Bank policy error (excess tightening)

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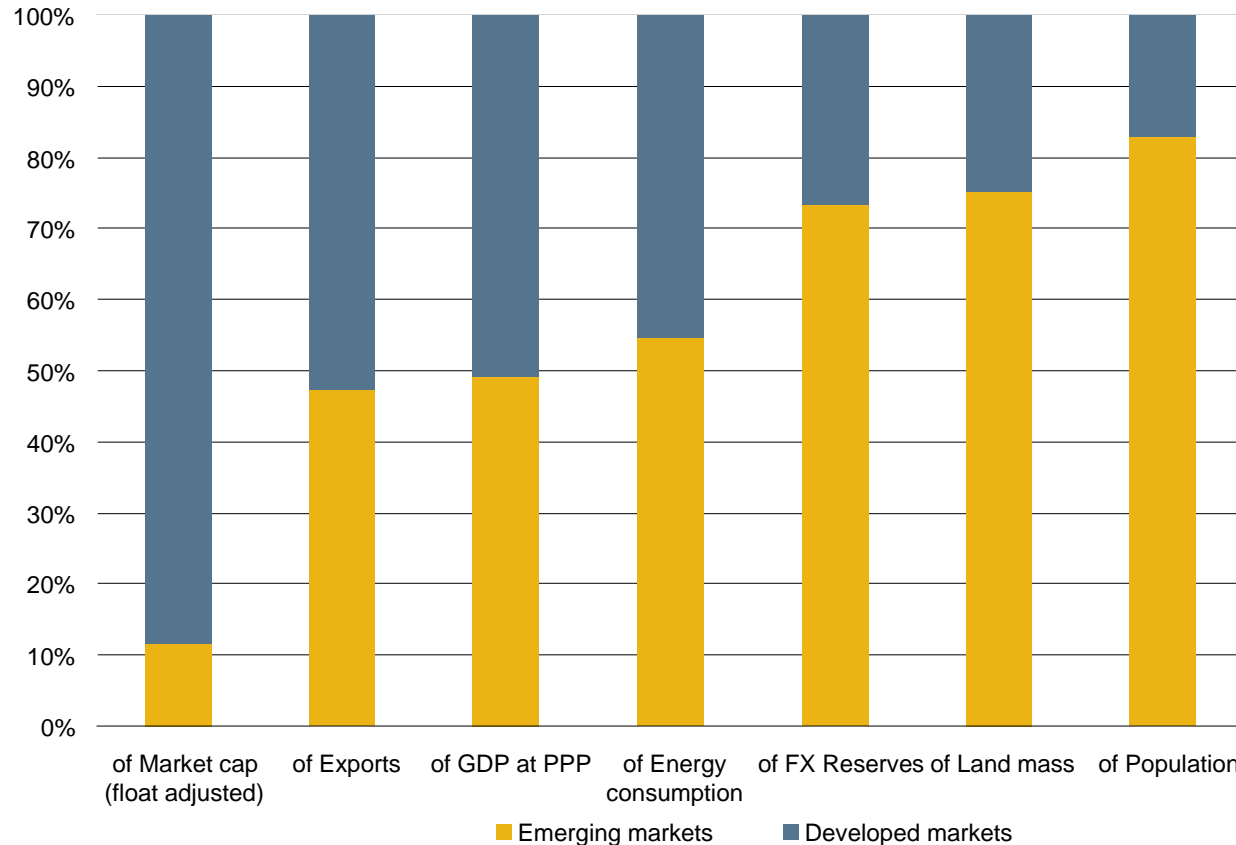
Pioneer Funds – Emerging Markets Equity

Pioneer Funds – Emerging Europe and Mediterranean Equity

Outlook and Summary

Emerging Economies as a Percent of World Total:

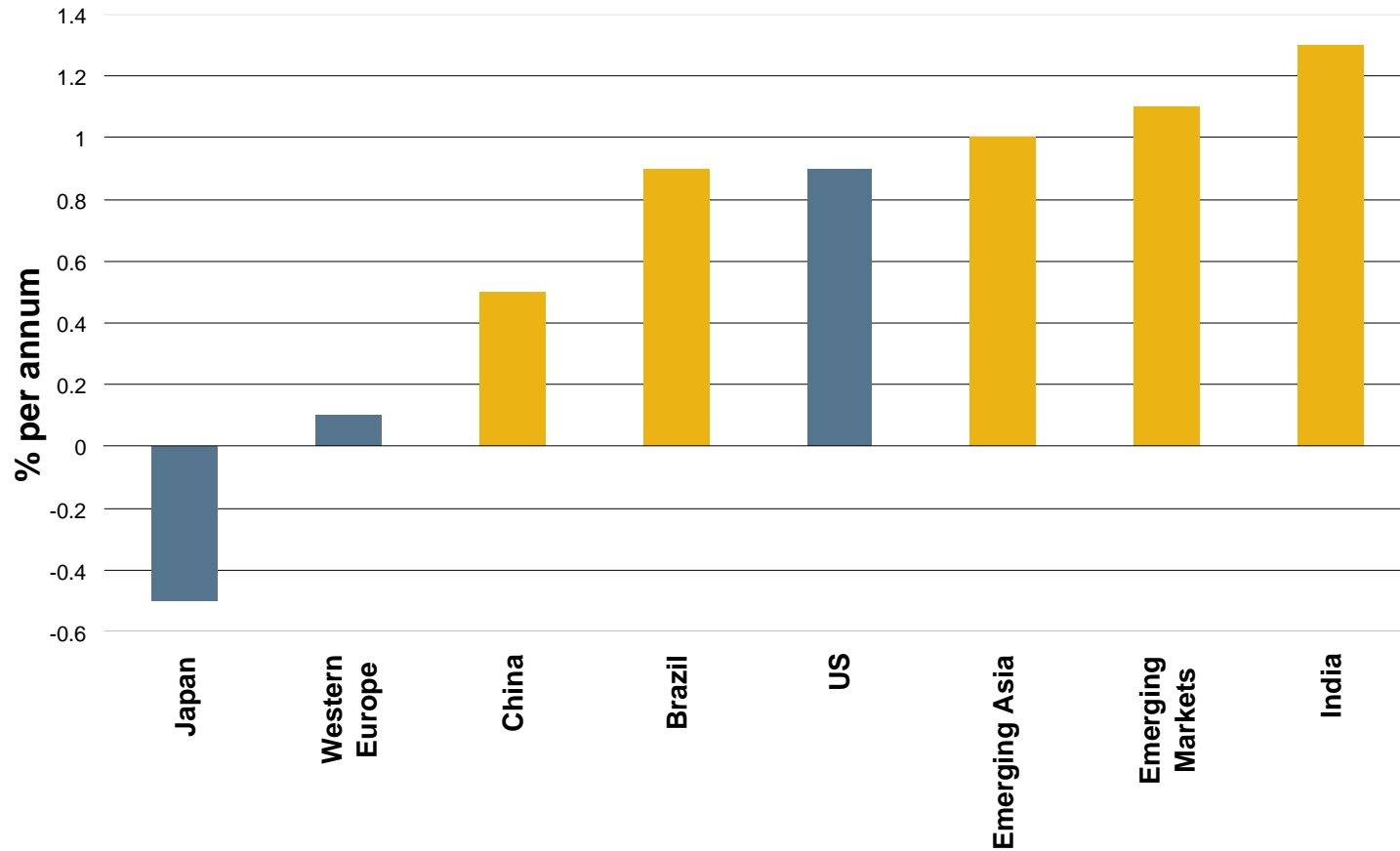
EM Stockmarkets Have Plenty of Scope to Grow



- Emerging equity markets are still undervalued in a global context
- Very low equity market capitalisation compared to growth potential
- Economic fundamentals and corporate profitability continue to strengthen
- Increased global trade and higher productivity are key drivers...
- ...as are demographic trends and rising incomes

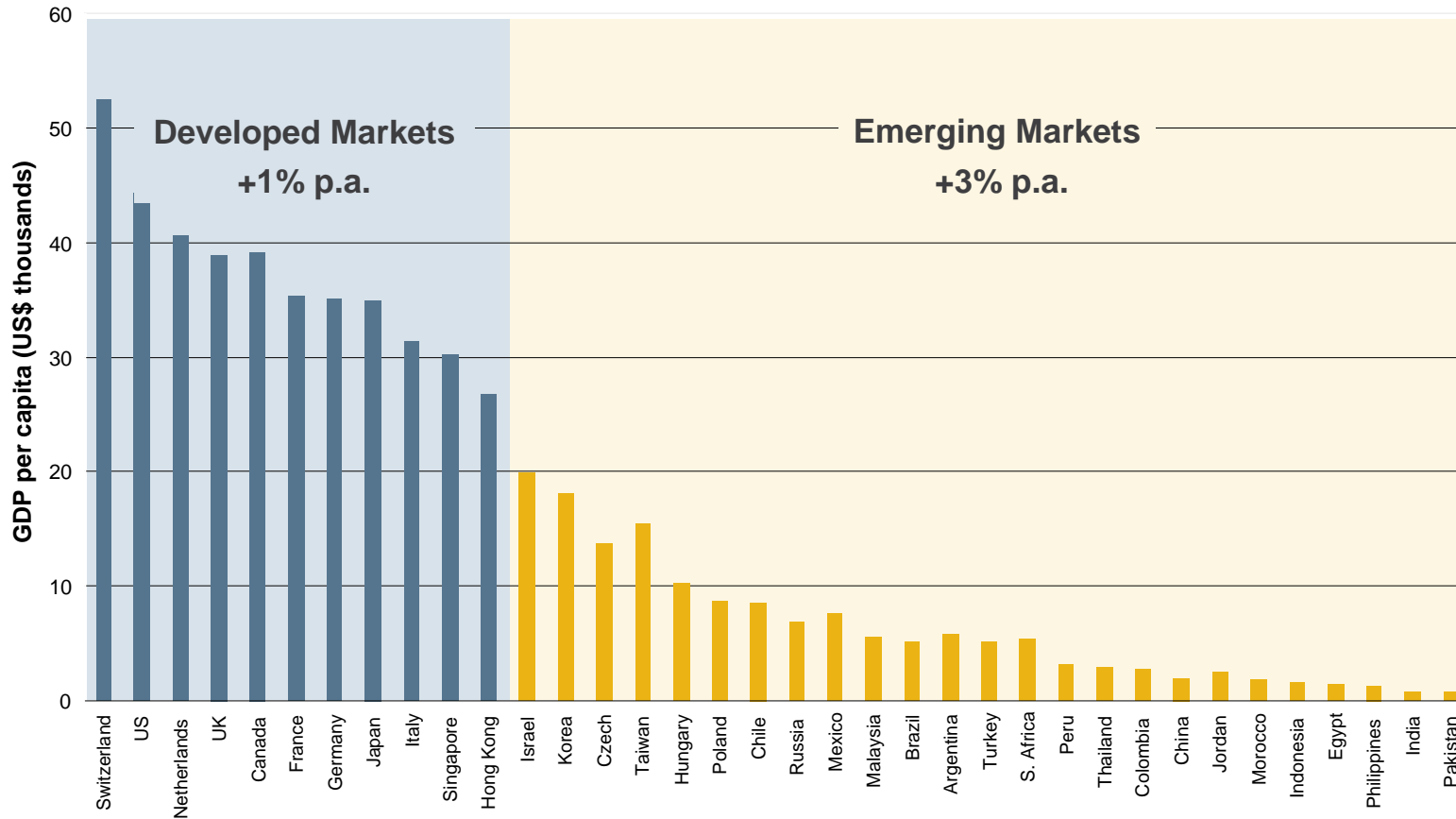
Source: Bank of America Merrill Lynch: GEM in Pictures, 5 May 2009. Merrill Lynch calculations, BP, CIA World Factbook, IMF World Economic Outlook, MSCI data sources.

Demographics Favours Emerging Markets: Population Growth-Rate Forecasts 2008-2030



Source: CrossBorder Capital: Implementing Insight May 2009. Data from IMF, UN.

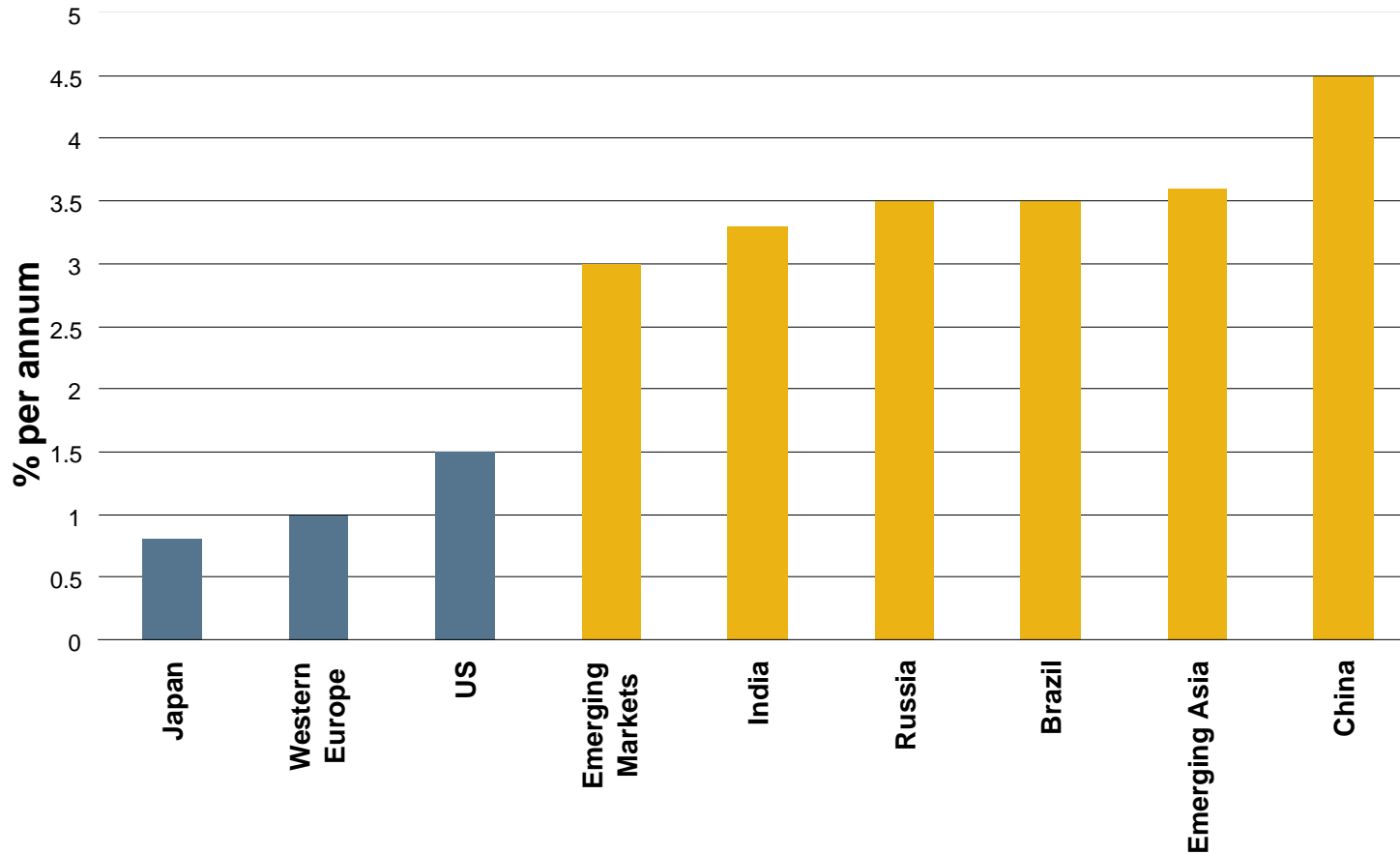
Global Rebalancing of Wealth: GDP Per Capita Growth Forecasts 2008-2030



Source for Chart: IMF World Economic Outlook April 2009. Source for GDP growth forecasts figures: CrossBorder Capital: Implementing Insight May 2009. Data from IMF, UN.

Income Growth Favours Emerging Markets:

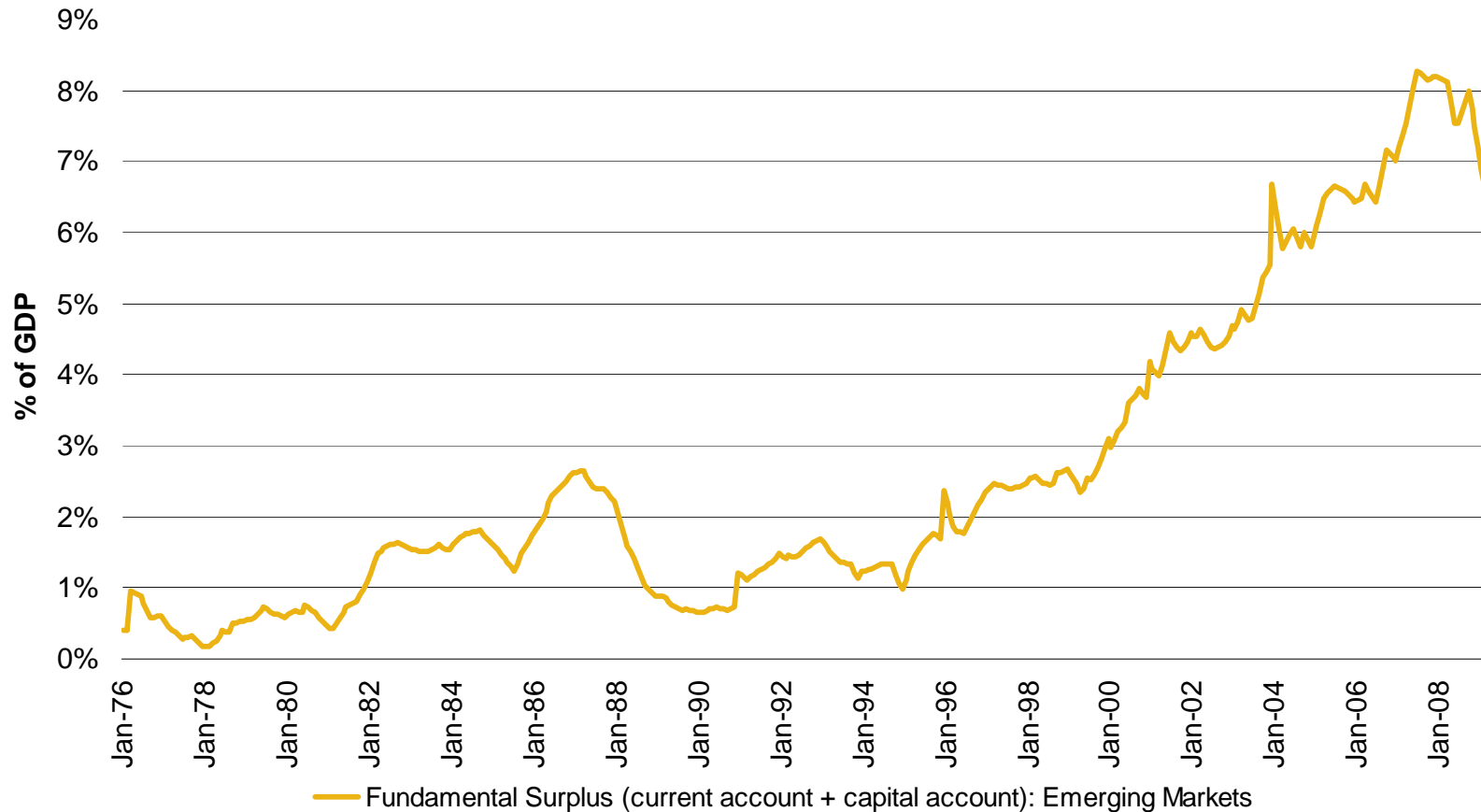
Income Per Capita Growth-Rate Forecasts 2008-2030



Source: CrossBorder Capital: Implementing Insight May 2009. Data from CBC, IMF, UN.

Rising Liquidity in Emerging Markets

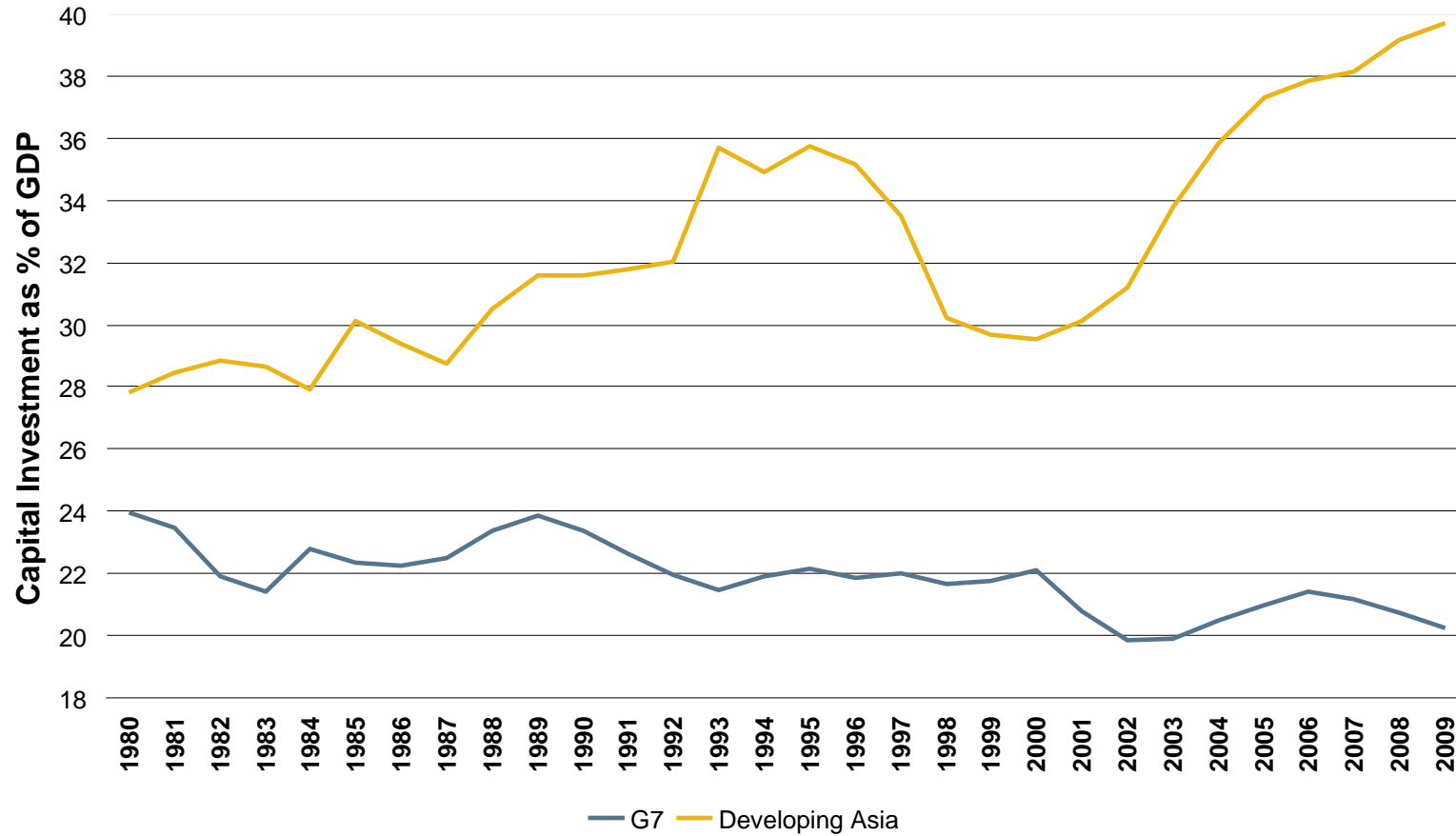
Fundamental Surplus (Current Account + Capital Account): Percent of GDP 1976-2009



Source: CrossBorder Capital: Implementing Insight May 2009. Data from CBC, IMF.

Higher Investment Rates in Emerging Countries

Capital Investment as a Percent of GDP 1980-2009

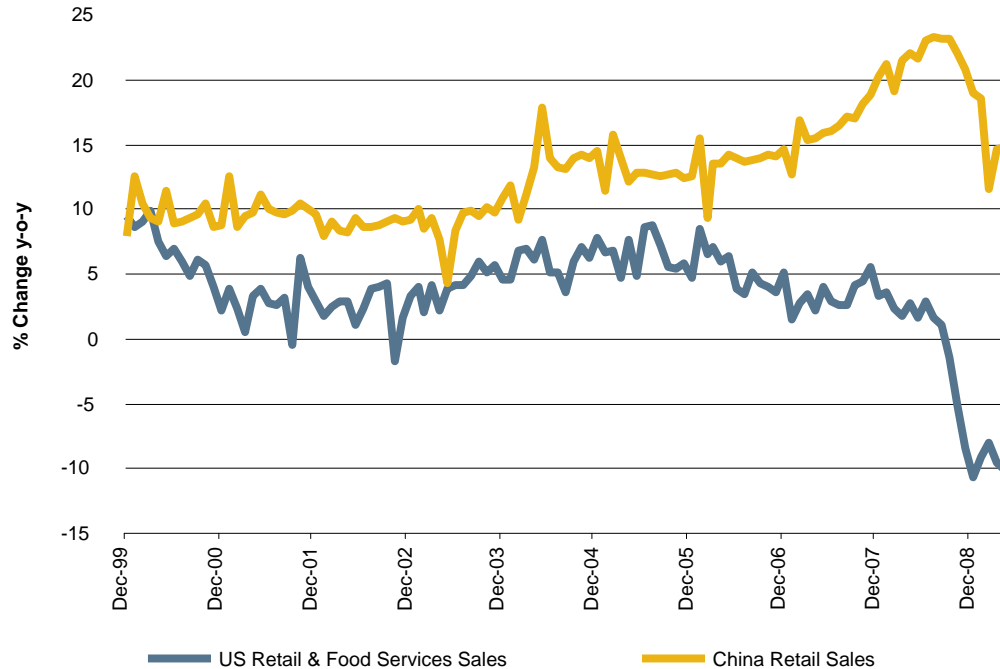


Source: CrossBorder Capital: Implementing Insight May 2009. Data from CBC, IMF.

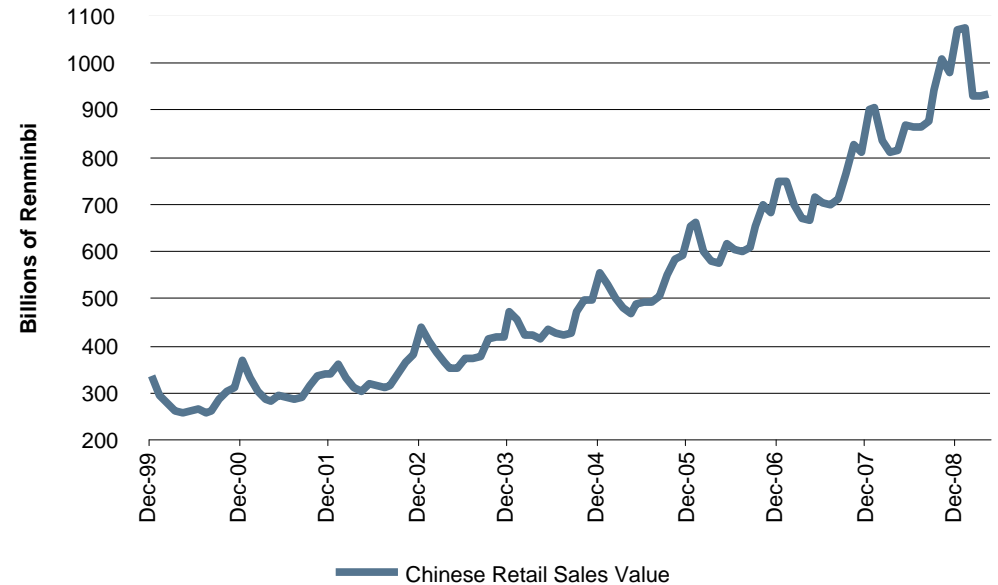
Retail Sales Growth

China Much Stronger than the US

Strong y-o-y Chinese Sales Growth



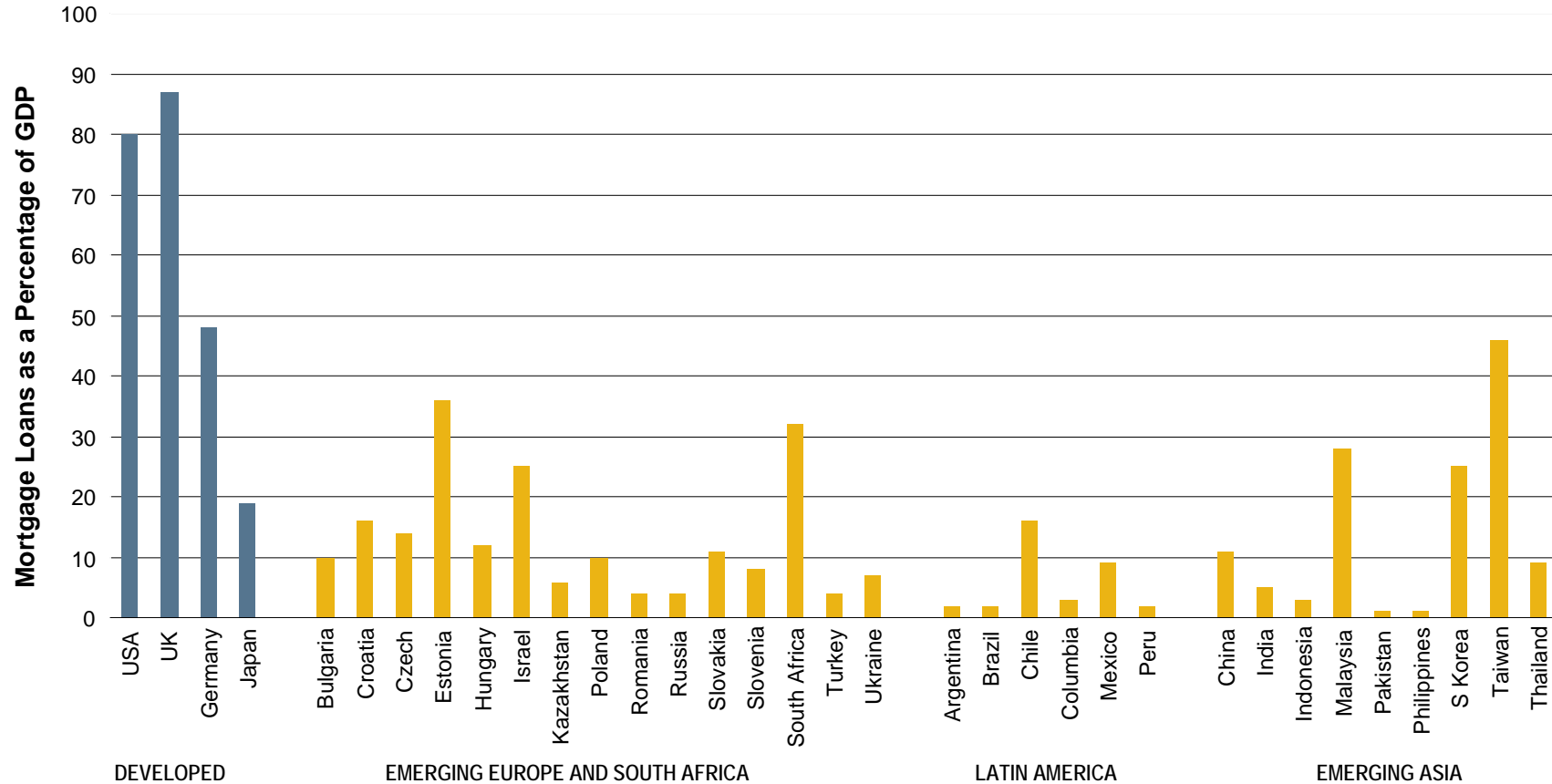
Total Volumes of Sales – Strong Rising Trend



Source: Bloomberg, monthly data, 31 Dec 99 to 30 Apr 09

Retail Finance

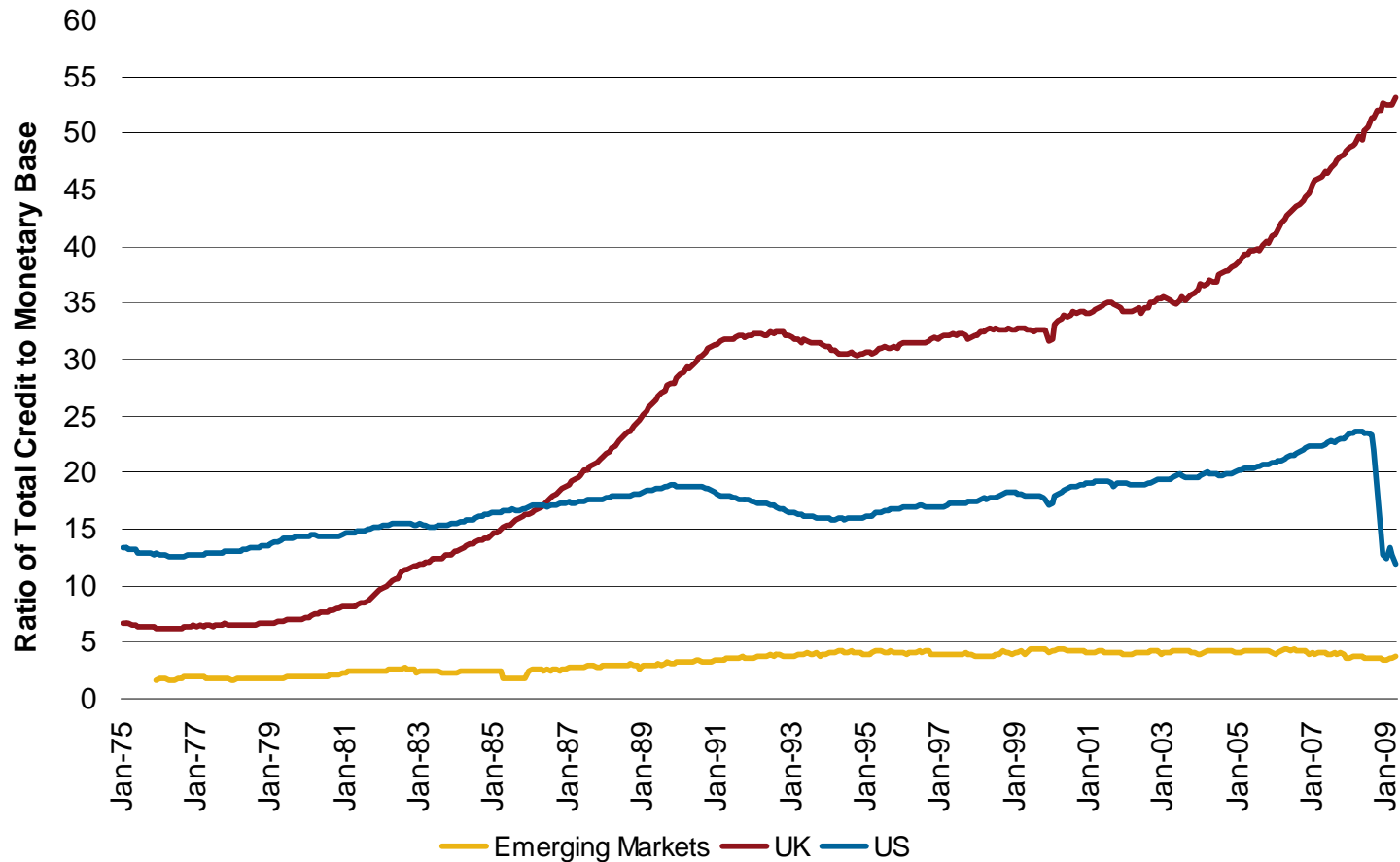
Low Penetration Rate of Mortgage Loans in Emerging Markets



Source: Bank of America Merrill Lynch: GEM In Pictures 5 May 2009. Central Bank Data, BIS, Merrill Lynch estimates. Note: Most data end-2007, some end 2006, some ML estimates

Emerging Markets Fundamentally Underleveraged

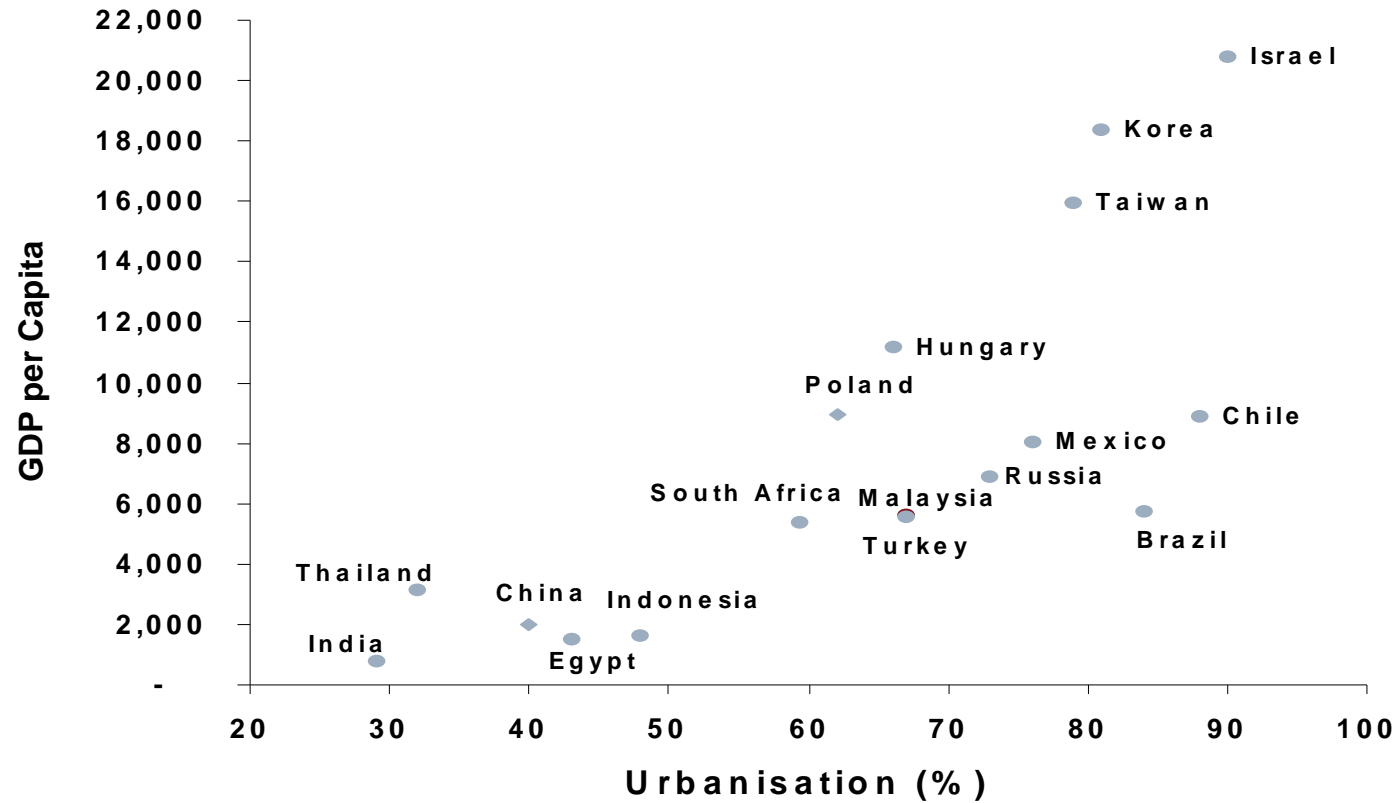
Ratio of Total Credit to Monetary Base



Source: CrossBorder Capital: Implementing Insight May 2009. Data from CBC, IMF.

Urbanisation

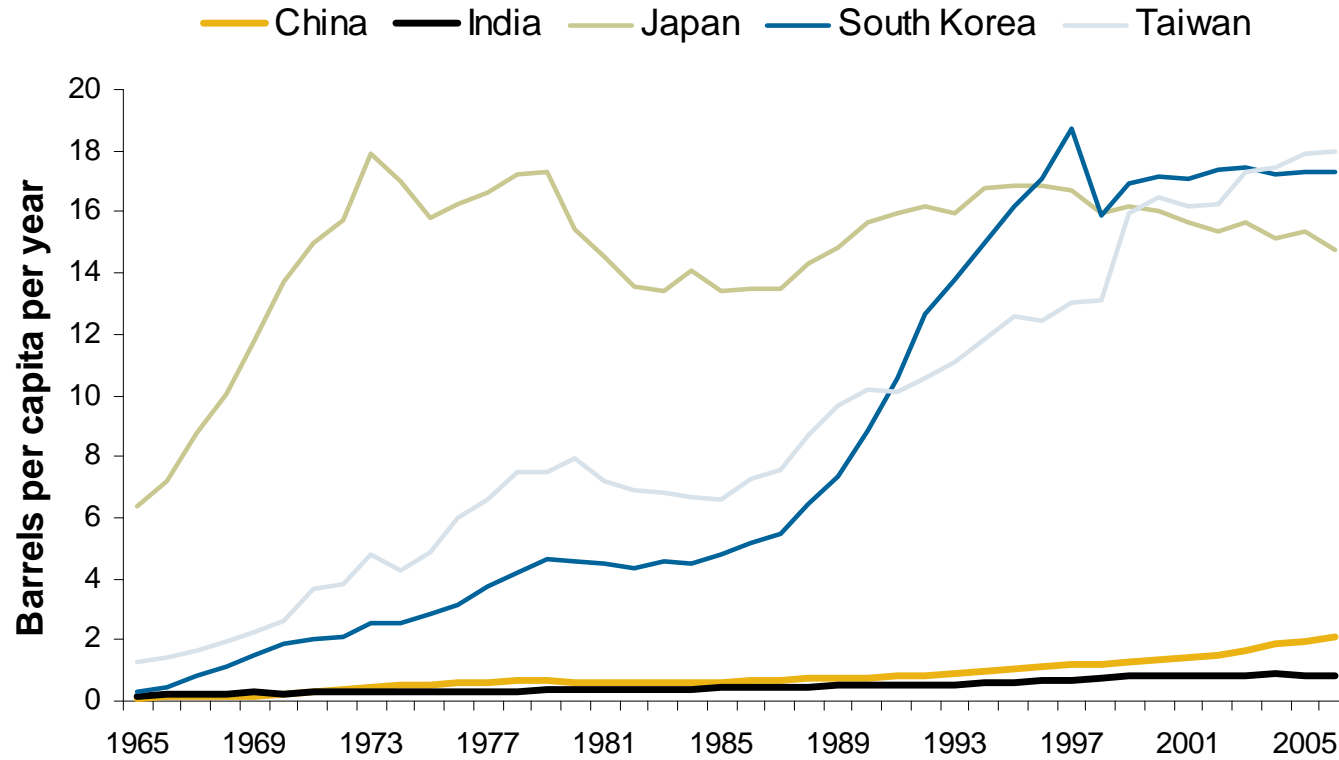
Positive Demographics Driving Economic Wealth



Source of chart: GDP per capita: IMF – WEO October 2007. Data for Year '06 with some IMF estimates. Urbanisation rate: 2007 World Development Indicators - World Bank (Taiwan data from Department of Statistics, Ministry of Interior - <http://www.moi.gov.tw/stat/english/index.asp>)

Oil

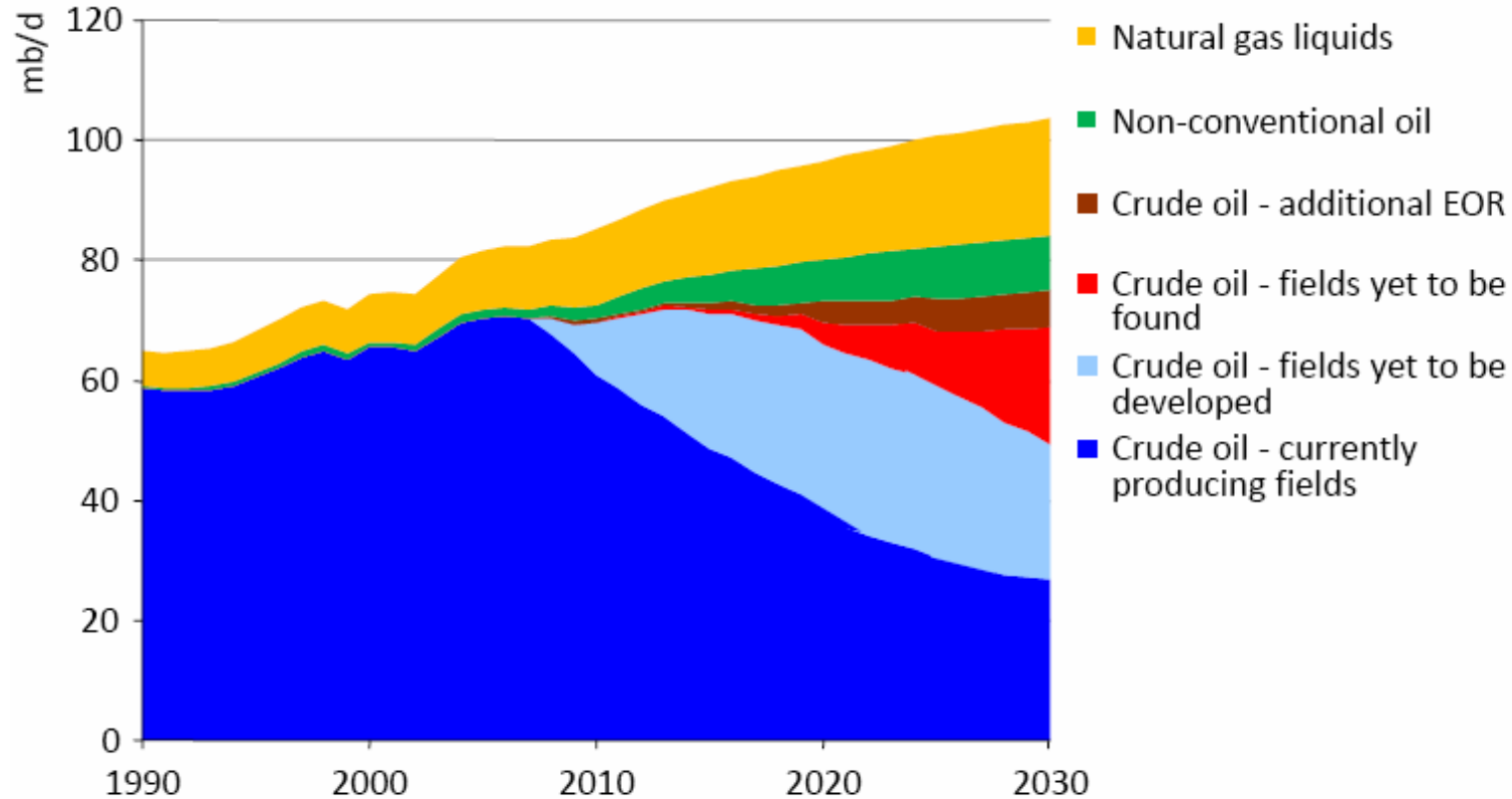
Demand in China and India has Barely Started



Source: BP Statistical Review of World Energy. Projections are from Stifel Nicolaus – 1965 to 2006 data

Oil

Supply Side Has Suffered During Crisis, but Under Investment a Long-Term Problem

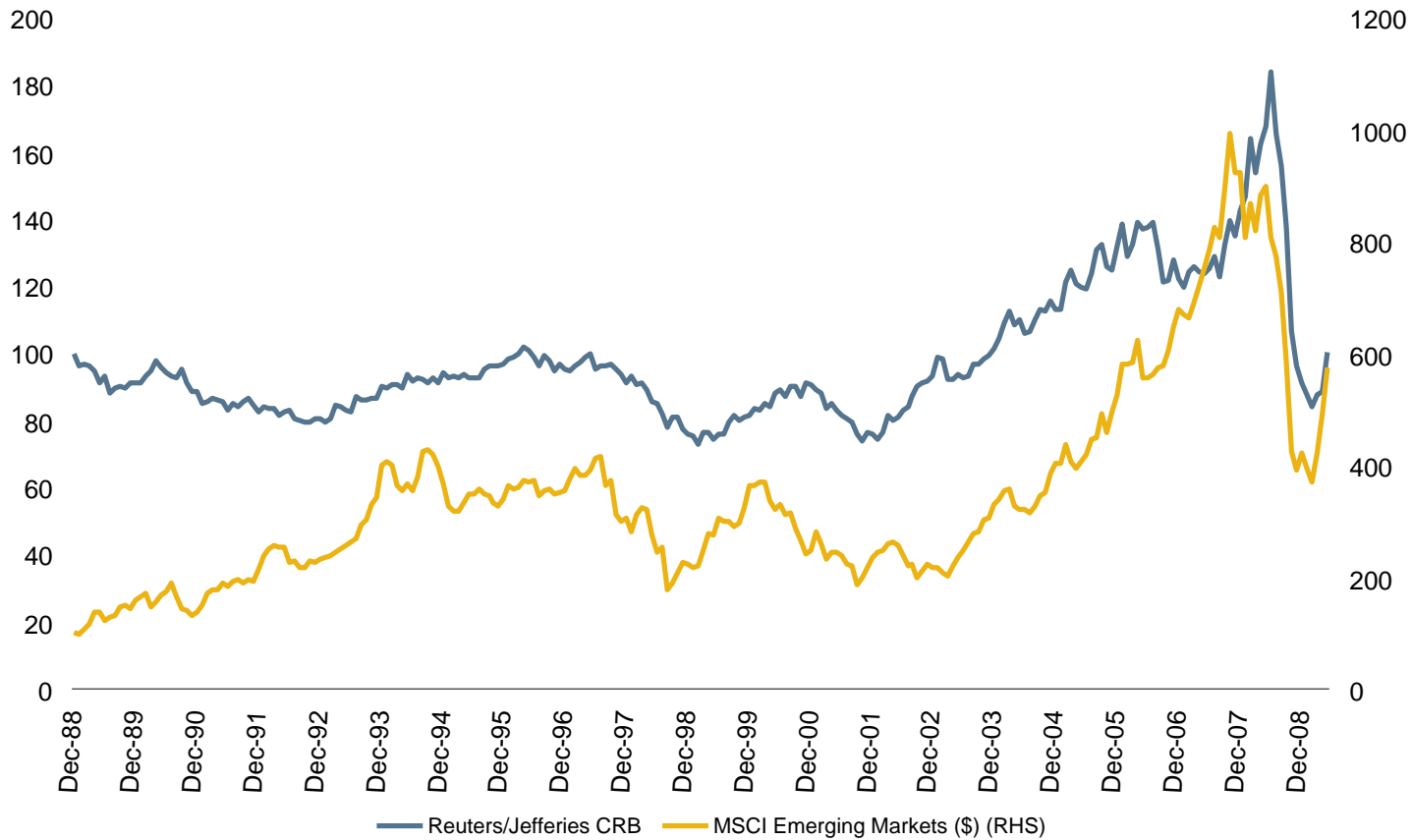


- Under Investment in supply will be felt in the future
- Without Investment global oil production will fall by over 1% per annum
- 2008 – global investment in oil and gas exploration was US\$390 billion
-but, this is still too low relative to IEAs estimates of need at US\$450 billion.

Source: Renaissance Capital: Russia – From Reversion to Recovery, June 2009. Chart source IEA.

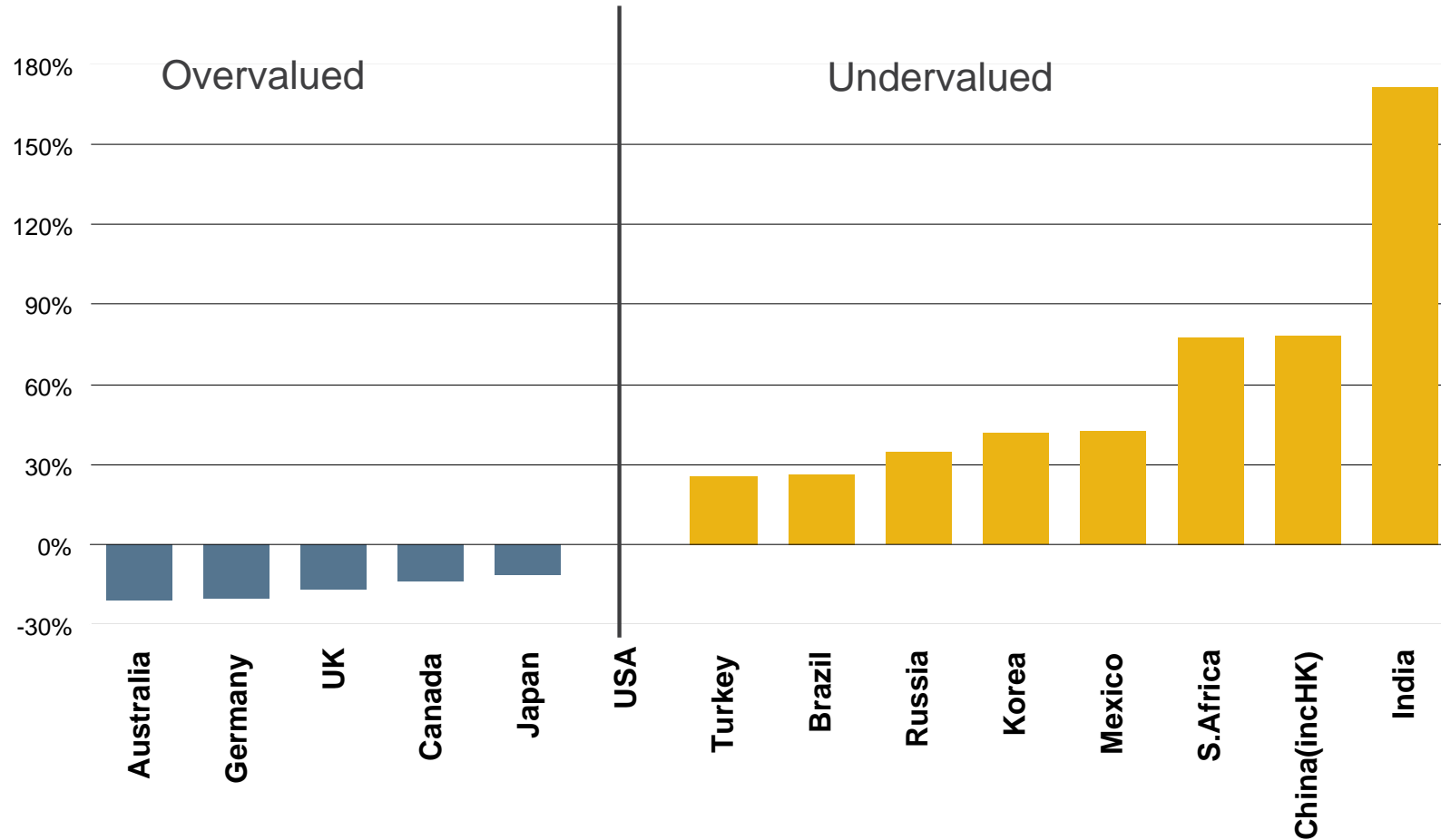
Emerging Markets and Commodities

Close Correlation



Source: Bloomberg, monthly data, 30 Dec 1998 – 29 May 2009

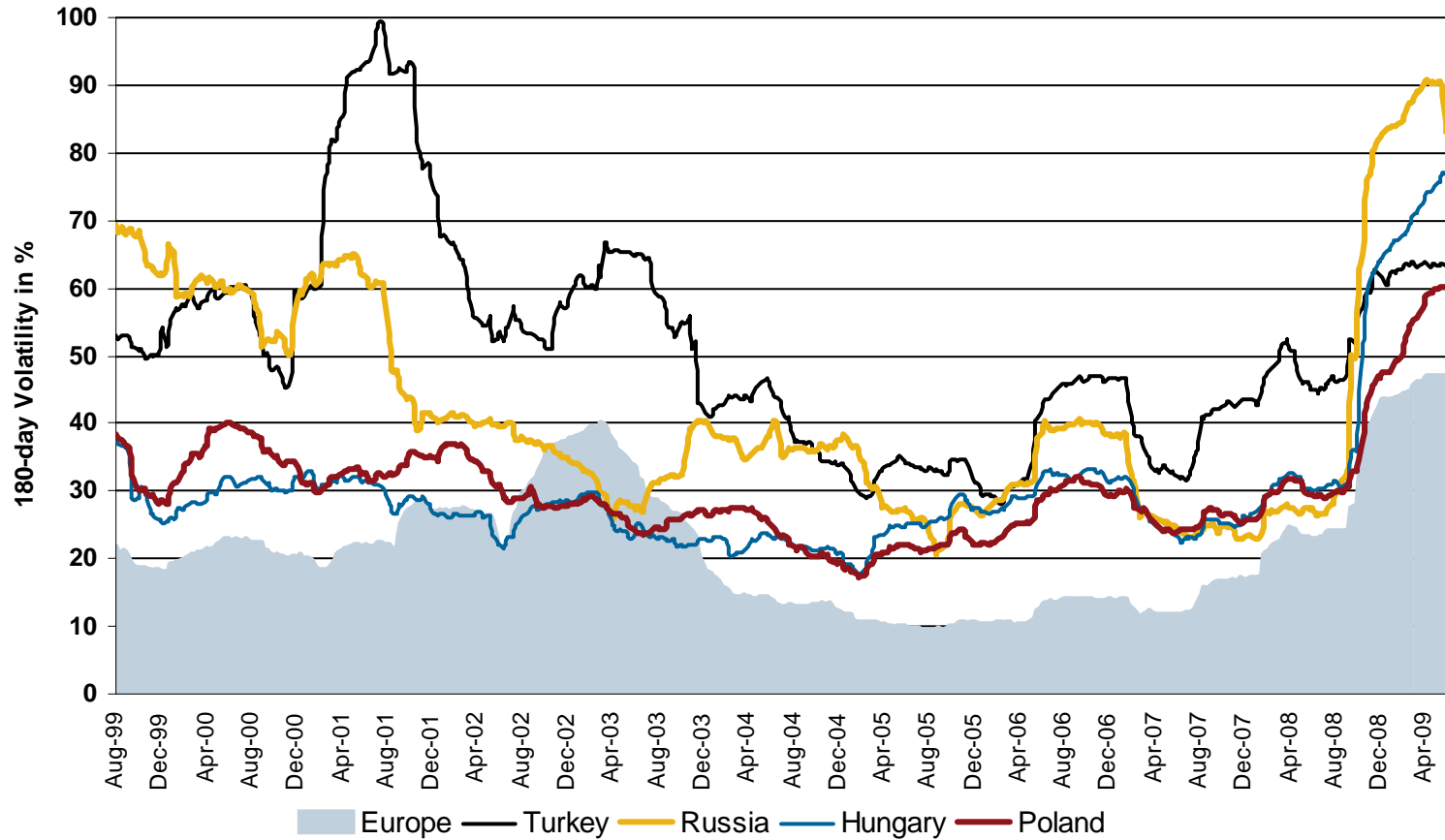
Purchasing Power Parity Exchange Rates Discount to 'Fair Value'



Source: CrossBorder Capital: Implementing Insight May 2009. Data as at End-2008.

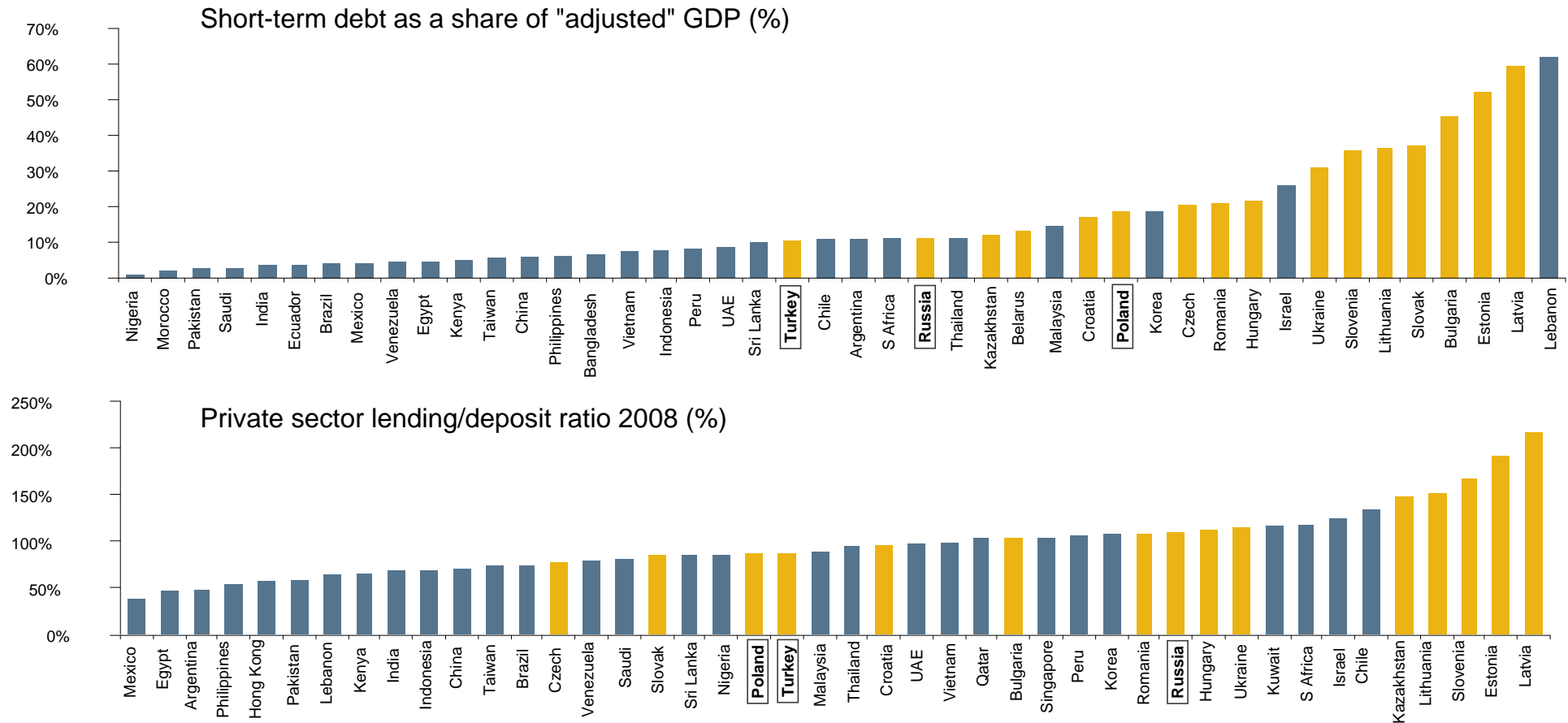
Emerging Europe

Return of Market Volatility



Source: Bloomberg, 13.08.99 – 12.6.09

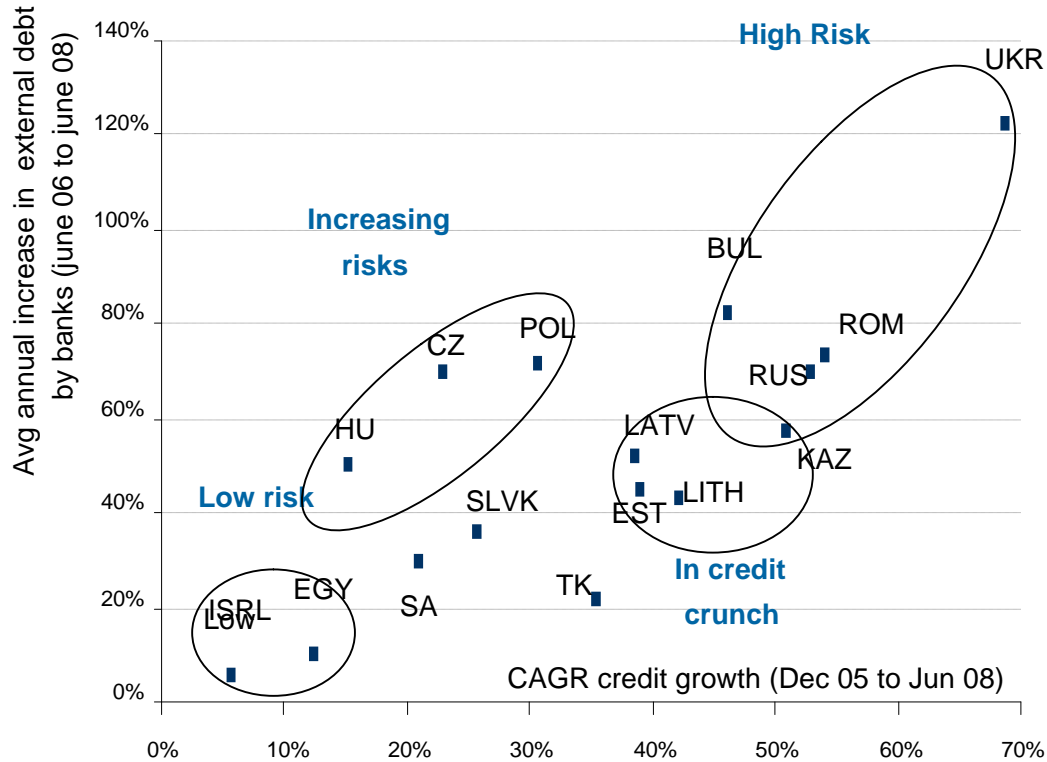
Emerging Europe Is Being Tested by the Global Credit Crunch But Not All Countries are Equally Exposed



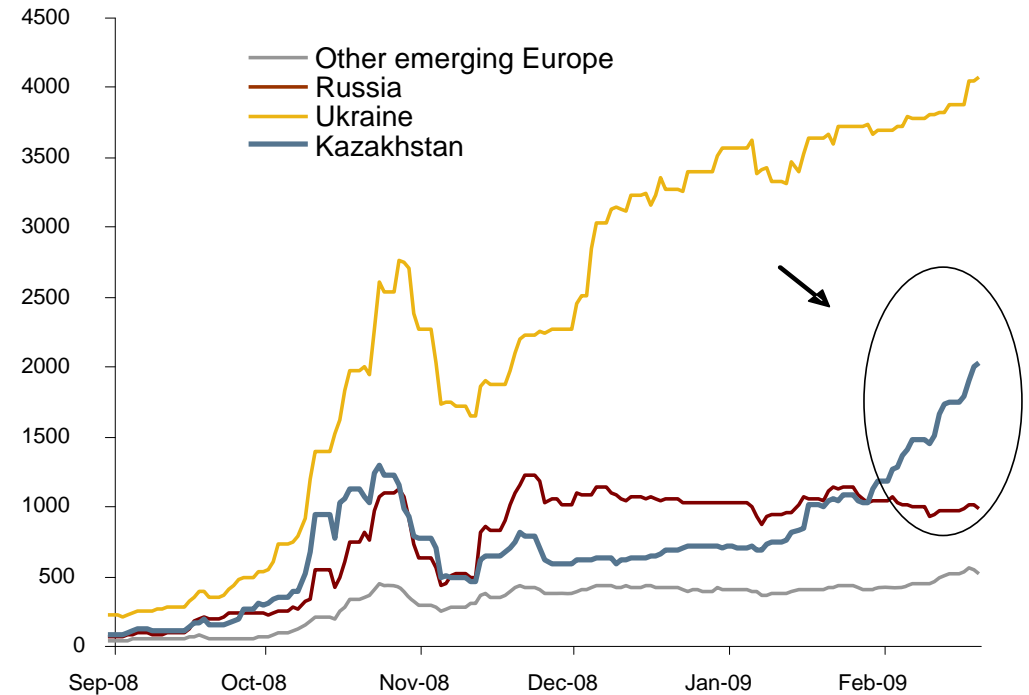
Source: UBS, February 2009.

Ukraine, Kazakhstan and Baltic States Are Most Vulnerable

Russia and CEE3 are Better Placed



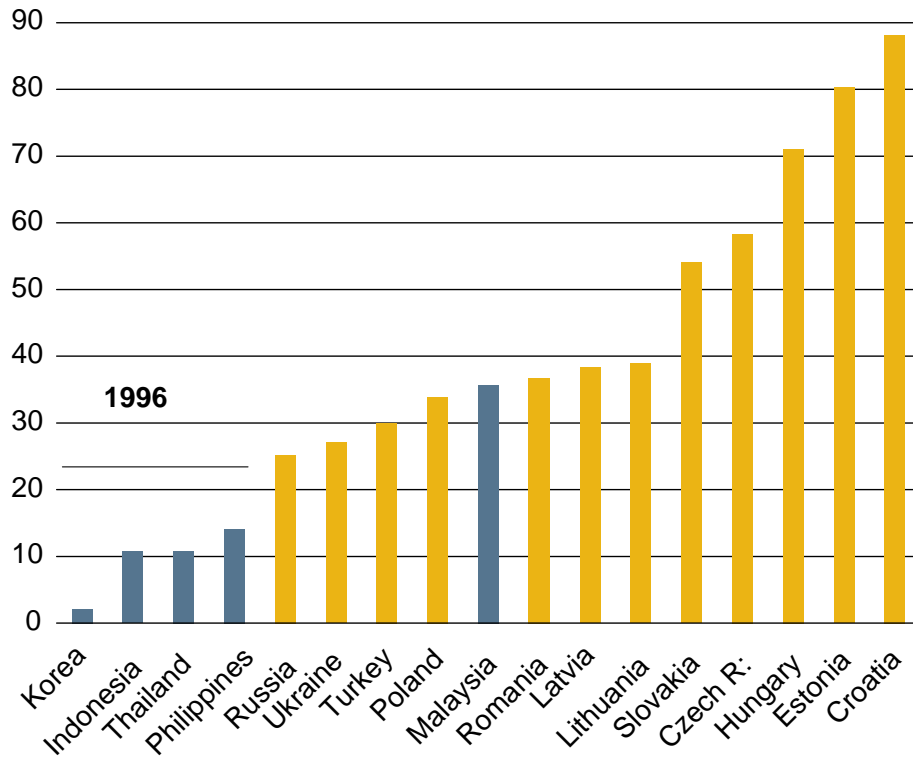
One-year sovereign CDS spread (bp)



Source: Merrill Lynch and UBS, February 2009.

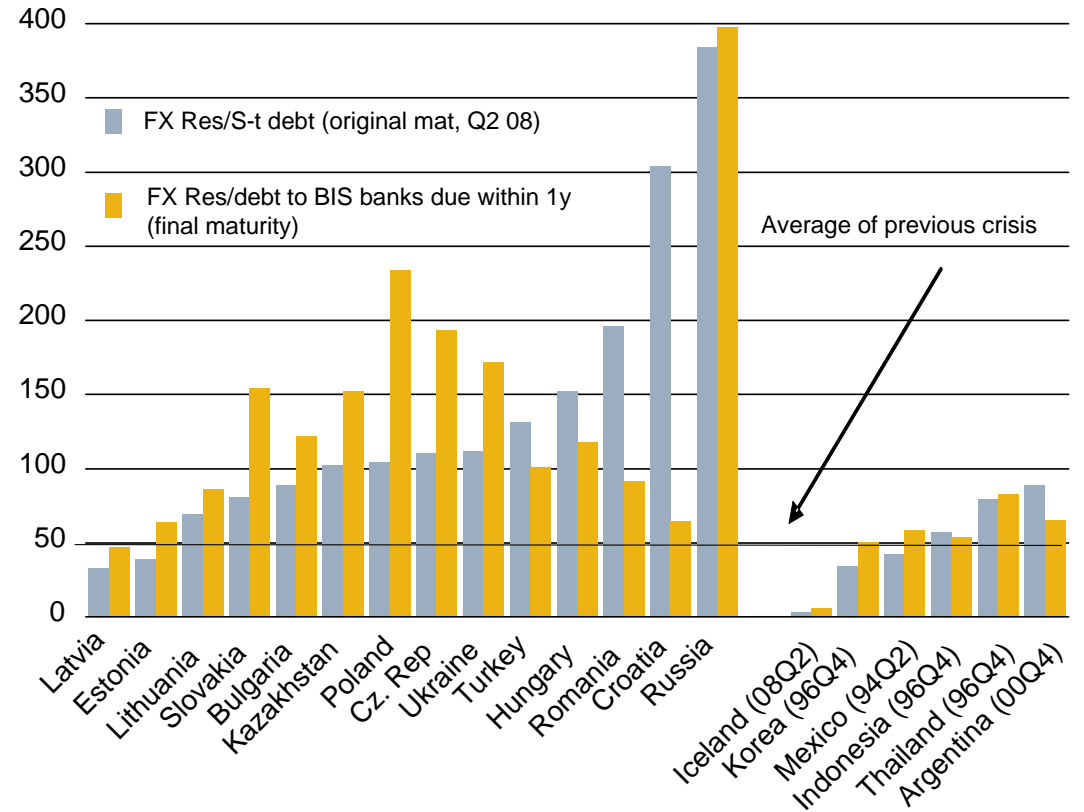
Fears Of A Replay Of The Asian Crisis Are Exaggerated

FDI stock, % GDP, 2007 for CEE, 1996 for Asia



Source: Unicredit, February 2009.

FX reserves ratios relative to short-term debt and to short-term debt due to BIS banks within 1 year

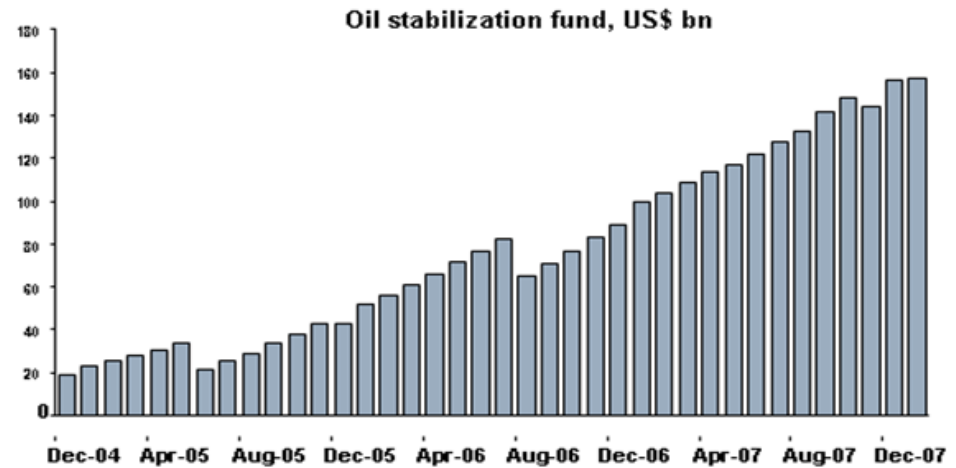
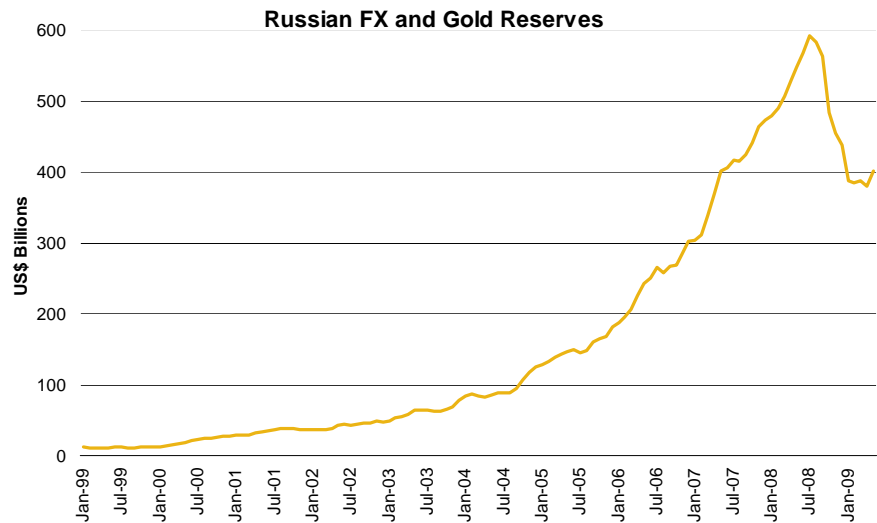


Russia:

Disciplined Fiscal Management Is Paying Dividends



- Currency reserves allowed for gradual devaluation
- Stabilization fund can be used to absorb the commodity price shock
- Social transfers will help to sustain consumption
- Expect tighter monetary policy and lower inflation



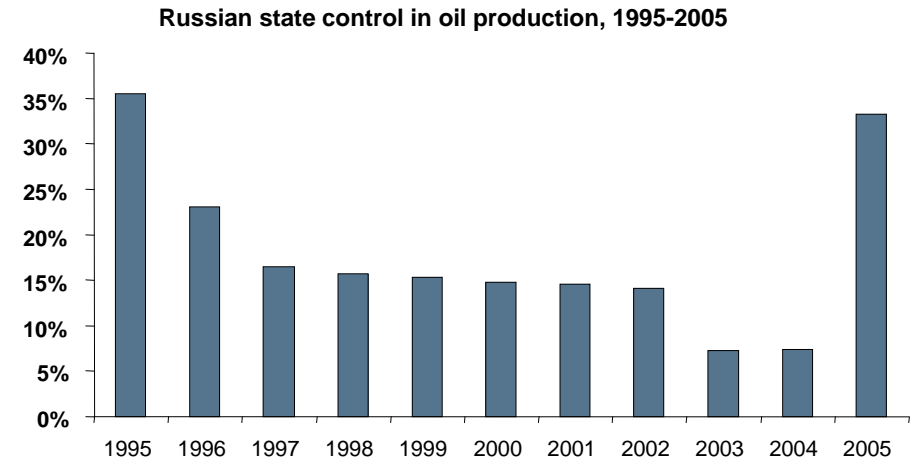
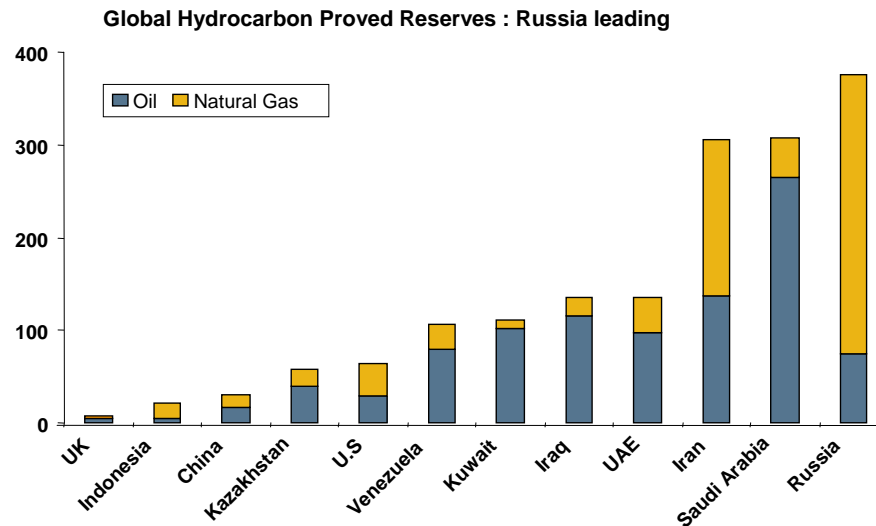
Source: Bloomberg – as at 29 May 09 for Russia's FX and as at 31.01.08 for Oil Stabilization fund.

Russia:

The Saudi Arabia of Energy Reserves



- Russia is well positioned to become an energy superpower
- State controlled companies trade at a premium
- Russian companies are inexpensive on reserve measures but investment needs remain high



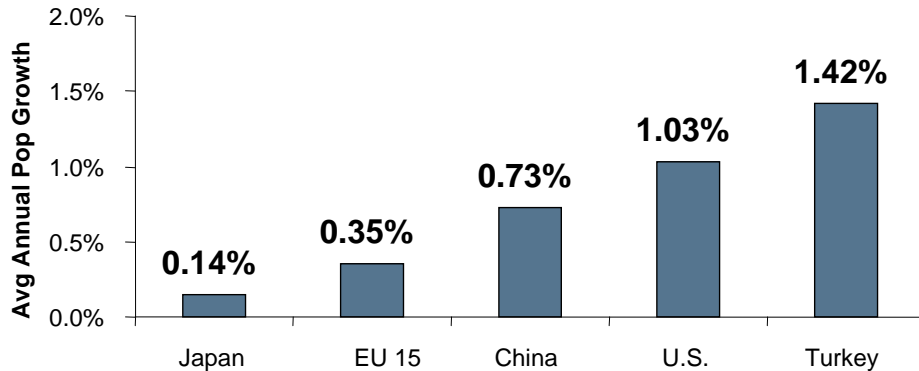
Source: Left chart - BP statistical review of world energy, as at 31.12.05. Right chart - UBS as at September 2006

Turkey: Convergence Continues



- Convergence remains critical
 - Detailed EU accession negotiations have begun (June 2006)
 - Process of convergence likely to take at least 10 years and will yield lasting economic benefits
- IMF anchor is likely to be reinstated
- Extremely positive demographics a long-term driver

Population Growth: Turkey Leads



Source: The Economist, 2004. Chart shows average annual population growth 2000-2005.

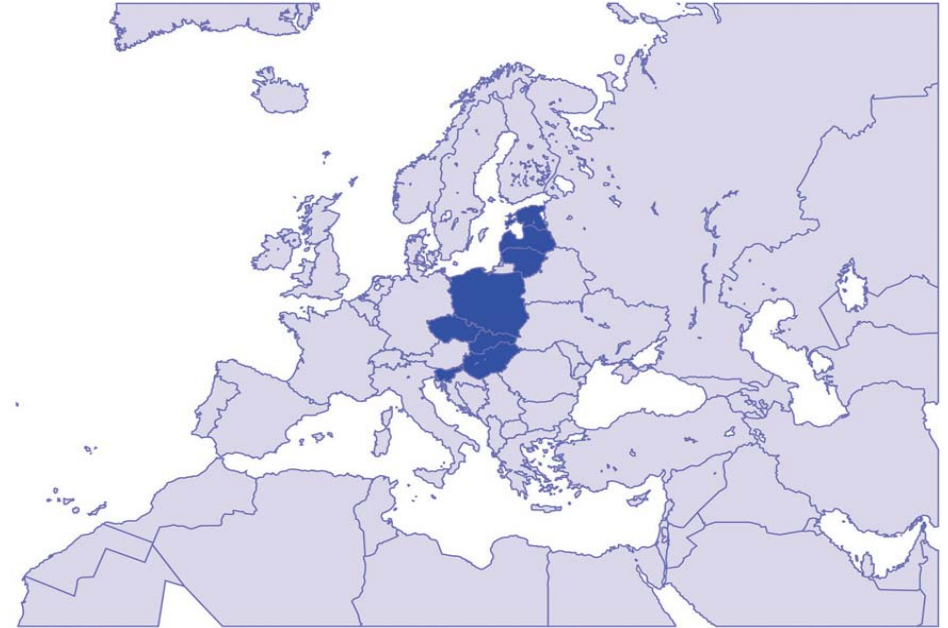
	GDP per capita (EUR)	Loans/ GDP	Mortgage/ GDP	Loans/ Deposits	NIM/ Assets
CZECH REPUBLIC	11,942	64%	10%	87%	2.5%
HUNGARY	9,892	82%	14%	139%	2.8%
POLAND	7,920	47%	12%	121%	3.2%
TURKEY	4,776	36%	4%	79%	5.0%
PORTUGAL 1992	5,825	45%	12.8%	61%	4.80%
PORTUGAL 2003	12,795	153%	50.9%	127%	1.98%

Source: KBC December 2008. GDP per capita December 2007, Portugal data – Unicredit, December 2007

Central Eastern Europe

Decreasing Risk

- Euro Accession Will Be the Next Milestone
 - Cost advantage and increasing productivity
 - Rule of law resulting in better business environment
 - Entrepreneurship growth driver
 - EU funds will boost economies and currencies



Emerging Europe Conclusions: A Play on Global Recovery

- Commodities strength and refining margins
 - Oil, gas, metals, steel, refining
- EU convergence and regional expansion
 - Banks, refiners, utilities, pharma and manufacturing companies
- Consumer demand supported by rising incomes
 - Telecommunication services, banking and retail holdings
- Emergence of domestic institutional investors
 - Growth of equity market and rise of shareholder activism
- Infrastructure Investment
 - In Russia, Turkey and the Middle East

China: "The Empire Strikes Back"



- Cheerleader for the emerging markets and self appointed architect of the new world economic order
- Decisive action in November 2008 helped to boost domestic growth in credit and infrastructure spending
- World's largest single buyer of commodities
- Improving relations with Taiwan and Russia. Growing presence in Africa
- Increased focus on domestic demand and rebalancing of wealth within China
- Risk of second half slow down if credit is reined back

Core holdings:

ICBC

China Railway Development

China Life

South Africa: "The Lion King"



- Resilient through the crisis helped by strong corporate governance
- Currency underpinned by precious metal demand
- Big infrastructure spending programme: World Cup 2010
- Increased M&A (Standard Bank/ICBC; Bharti/MTN)
- Trevor Manual – longest serving financing minister – will still be in power under Jacob Zuma.

Core holdings:

Africa Bank Investments

MTN

PPC

Brazil: "City of God"



- Like South Africa, resilient through the crisis – strong political and economic management
- Offers blend of domestically driven and commodity-related export growth
- Offers one of the best demographics in emerging markets but income inequality is high
- Perceived as high risk market thanks to legacy of high inflation

Core holdings:

Petrobras

Natura

Redecard

India: “Slumdog Millionaire”



- Stronger government will act as a catalyst for pent up infrastructure spending
- One of the fastest growing major economies in 2009 and 2010
- Rule of law and property rights stronger than in China
- Better demographics than China; largest population by 2030
- ...but further behind in terms of economic development

Core holdings:

Hindustan Unilever

Hero Honda

BHEL

Indonesia:

“The Year of Living Dangerously”



- Classic emerging market: world's 4th largest population, 4th smallest stockmarket in SE Asia.
- Improving political reform and macroeconomic management
- Currently has one of the strongest economic fundamentals in Asia
- Benefiting from increased urbanisation and infrastructure spending
- Corporate governance and transparency weak
- Market remains relatively illiquid

Core holdings:

Astra International

Bank Rakyat International

Indocement

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Pioneer Funds – Emerging Markets Equity

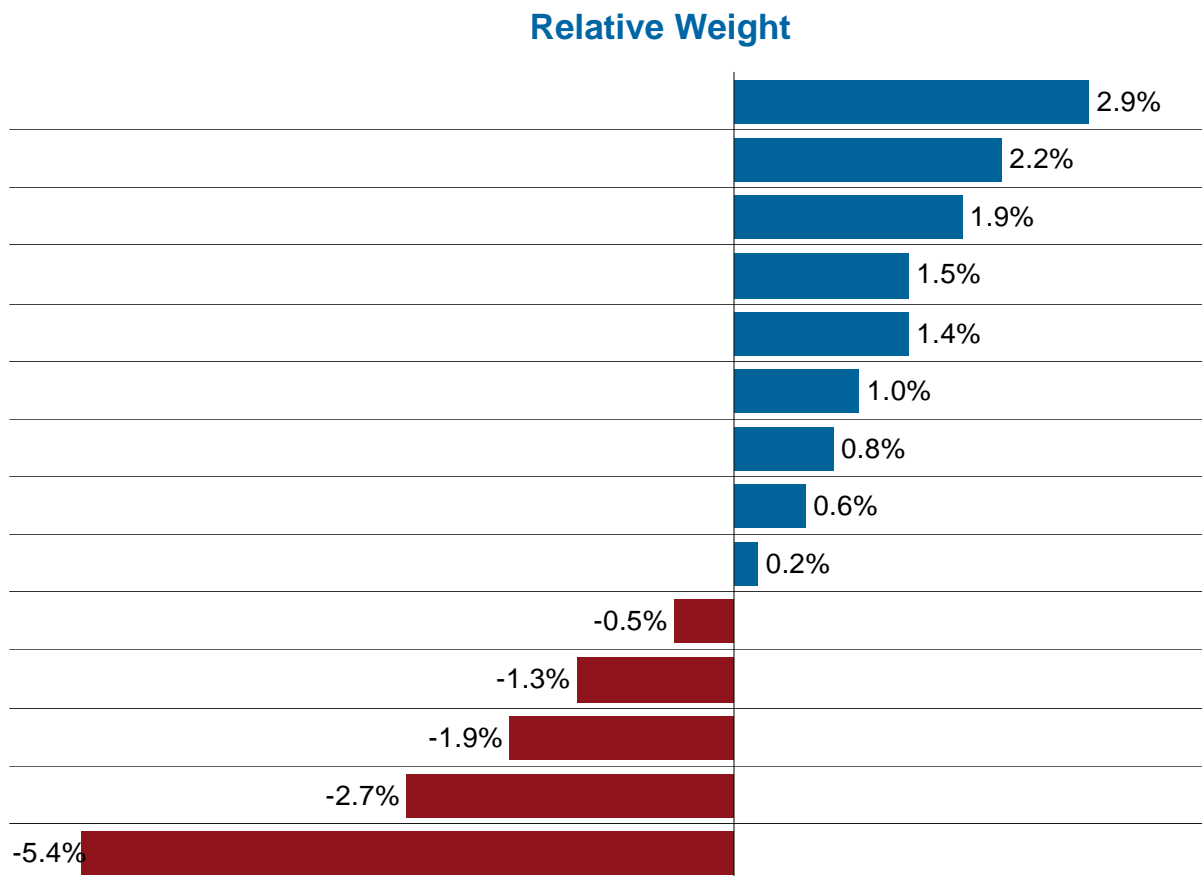
Pioneer Funds – Emerging Europe and Mediterranean Equity

Outlook and Summary

Country Allocation

Pioneer Funds – Emerging Markets Equity

Country	Portfolio	Benchmark
Brazil	18.2%	15.3%
South Africa	9.7%	7.5%
Russia	8.8%	6.9%
Turkey	2.8%	1.4%
Indonesia	3.0%	1.6%
Peru	1.6%	0.6%
India	8.3%	7.5%
China/ HK	18.4%	17.8%
Philippines	0.7%	0.5%
Israel	2.5%	3.0%
Taiwan	10.5%	11.8%
Malaysia	0.9%	2.7%
Mexico	1.9%	4.6%
Korea	7.0%	12.5%



Source: Pioneer Investments. Portfolio refers to Pioneer Funds – Emerging Markets Equity. Benchmark refers to the MSCI Emerging Markets Index. Data as at 29 May 2009.

Sector Allocation

Pioneer Funds – Emerging Markets Equity

Sector	Portfolio	Benchmark	Relative Weight
Consumer Disc	9.7%	4.6%	5.1%
Materials	15.8%	13.8%	2.1%
Energy	17.2%	15.9%	1.3%
Consumer Staples	6.3%	4.9%	1.3%
Telecoms	10.7%	10.9%	-0.2%
Health Care	1.5%	2.4%	-0.9%
Industrials	7.3%	8.4%	-1.1%
Financials	20.6%	22.8%	-2.3%
Information Tech	9.4%	12.7%	-3.3%
Utilities	0.0%	3.7%	-3.7%

Source: Pioneer Investments. Portfolio refers to Pioneer Funds – Emerging Markets Equity. Benchmark refers to the MSCI Emerging Markets Index. Data as at 29 May 2009.

Top 10 Holdings

Pioneer Funds – Emerging Markets Equity

Stock	Sector	Country	Portfolio Weight
PETROLEO BRASILEIRO-SPON ADR	Brazil	Energy	4.6%
AO GAZPROM-SPON ADR (LOND INT LIST)	Russia	Energy	2.5%
SAMSUNG ELECTRONICS CO LTD	Korea	IT	2.2%
CHINA MOBILE LTD	Hong Kong	Telecom	2.2%
AMERICA MOVIL-ADR SERIES L	Mexico	Telecom	1.9%
VALE SA-SP PEF ADR	Brazil	Materials	1.8%
CATHAY FINANCIAL HOLDING CO	Taiwan	Financials	1.8%
ISHARES MSCI TAIWAN INDEX FD	United States	Financials	1.8%
TAIWAN SEMICONDUCTOR-SP ADR	Taiwan	IT	1.8%
RELIANCE INDS-SPONS GDR 144A	India	Energy	1.7%

Source: Pioneer Investments as at 29 May 2009. Pioneer Funds - Emerging Markets Equity is actively managed and current holdings may be different. References to individual stocks should not be taken as an investment recommendation to buy or sell any particular stock.

Performance

Pioneer Funds – Emerging Markets Equity

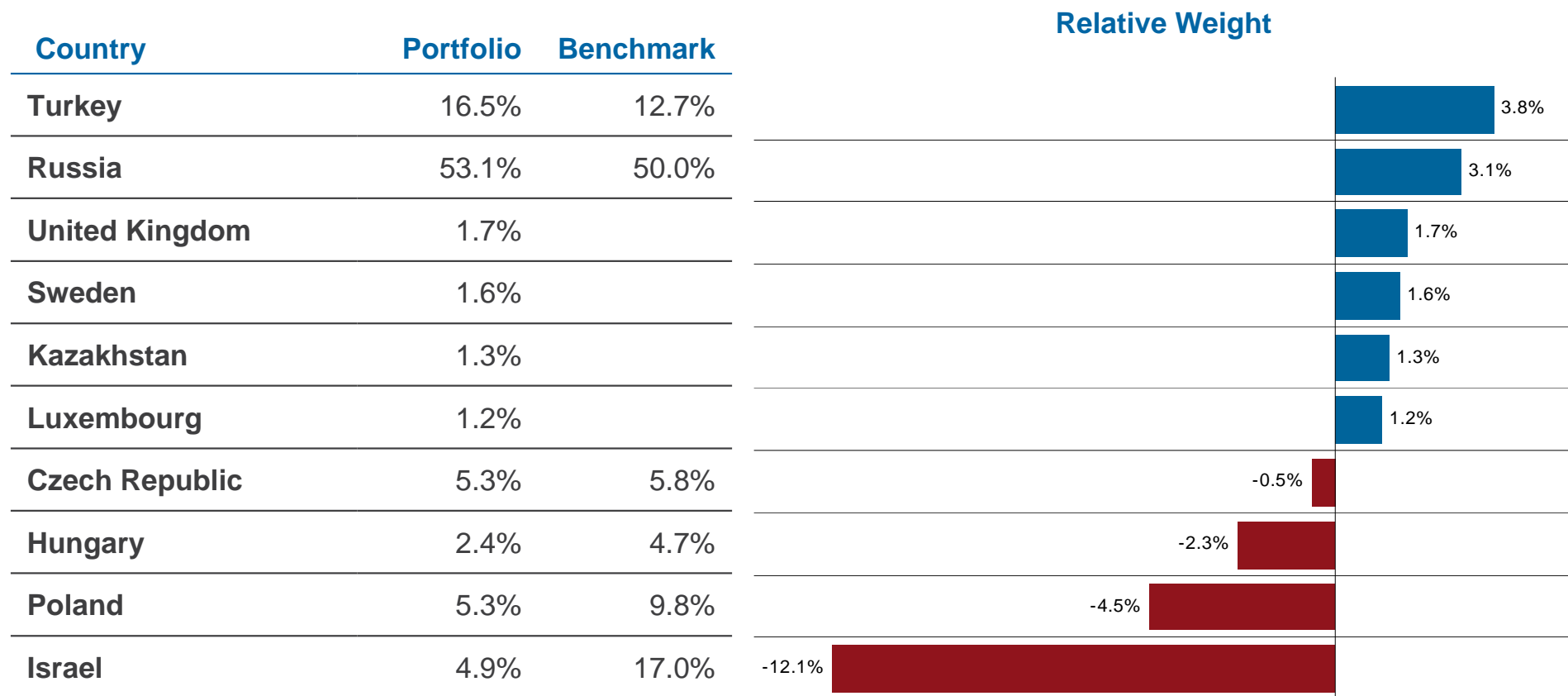
	Portfolio %	Benchmark %
YTD (to 29 May)	32.9	33.9
Q1 2009	5.8	5.2
2008	-59.2	-52.1
2007	32.0	23.1
2006	20.4	15.6
2005	55.2	50.2

- Over three of the last four calendar years (2007, 2006 & 2005), the Portfolio has posted double-digit returns and strong outperformance versus its benchmark.
- In 2008, the underperformance all came in the second half due to overweights in Russia, Energy and Materials. Our consumer-related exposure was also a negative. Indeed, underperformance was primarily only in September and October. Relative performance was roughly flat in November. The Portfolio outperformed in December.

Source: Pioneer Investments, data to 29 May 2008. Portfolio performance provided refers to Pioneer Funds – Emerging Markets Equity, Class A Non-Distributing units in EUR only and is based on NAV net of fees. Benchmark refers to the MSCI Emerging Markets Index, capital return.

Country Allocation

Pioneer Funds – Emerging Europe and Mediterranean Equity

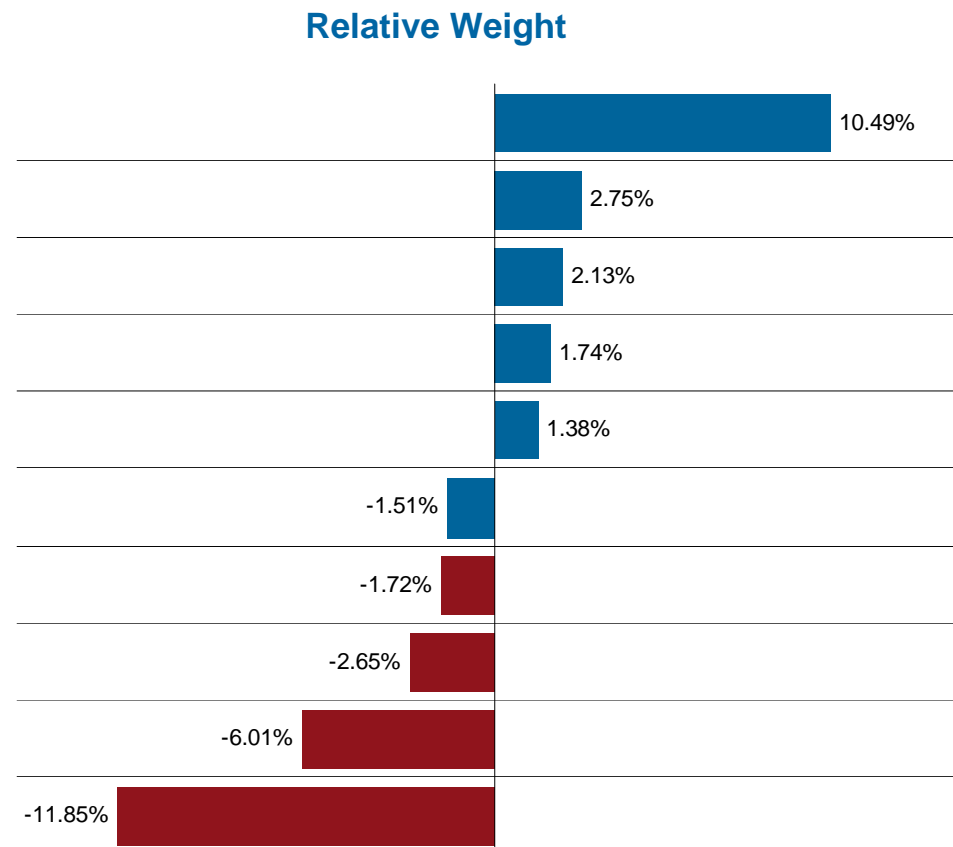


Source: Pioneer Investments as at 29 May 2009. Portfolio refers to Pioneer Funds – Emerging Europe and Mediterranean Equity. Benchmark refers to MSCI Emerging Markets Europe and M East 10/40.

Sector Allocation

Pioneer Funds – Emerging Europe and Mediterranean Equity

Sector	Portfolio	Benchmark
Consumer Staples	12.0%	1.5%
Energy	33.6%	30.9%
Consumer Disc	3.0%	0.9%
Industrials	3.9%	2.16%
Utilities	7.4%	6.1%
Telecoms	12.3%	13.8%
Health Care	5.3%	7.0%
Information Tech	0.5%	2.7%
Materials	6.6%	12.6%
Financials	10.6%	22.4%



Source: Pioneer Investments as at 29 May 2009. Portfolio refers to Pioneer Funds – Emerging Europe and Mediterranean Equity. Benchmark refers to MSCI Emerging Markets Europe and M East 10/40.

Top 10 Holdings

Pioneer Funds – Emerging Europe and Mediterranean Equity

Stock	Sector	Country	Portfolio Weight
LUKOIL-SPON ADR (LOND INTL LISTING)	Russia	Energy	7.75%
AOO GAZPROM-SPON ADR (LOND INT LIST)	Russia	Energy	6.63%
ROSNEFT OJSC-GDR	Russia	Energy	5.47%
SURGUTNEFTEGAZ-SP ADR	Russia	Energy	5.37%
BIM BIRLESIK MAGAZALAR AS	Turkey	Consumer Staples	5.02%
CEZ AS	Czech Republic	Utilities	3.74%
COMSTAR UNITED TELESYST-GDR	Russia	Telecoms	3.53%
POLYMETAL-REGS GDR	Russia	Materials	3.00%
TEVA PHARMACEUTICAL-SP ADR	Israel	Health Care	2.91%
NOVATEK OAO-SPONS GDR REG S	Russia	Energy	2.81%

Source: Pioneer Investments as at 29 May 2009. Pioneer Funds - Emerging Europe and Mediterranean Equity is actively managed and current holdings may be different. References to individual stocks should not be taken as an investment recommendation to buy or sell any particular stock.

Performance

Pioneer Funds – Emerging Europe and Mediterranean Equity

	Portfolio %	Benchmark %
YTD (to 29 May)	37.8	35.4
Q1 2009	3.0	-0.2
2008	-63.3	-60.8
2007	16.7	15.9
2006	26.6	10.9
2005	72.7	63.3

Source: Pioneer Investments, data to 29 May 2008. Portfolio performance provided refers to Pioneer Funds – Emerging Europe and Mediterranean Equity, Class A Non-Distributing units in EUR only and is based on NAV net of fees. Benchmark refers to the MSCI Emerging Markets Europe & Middle East 10/40 Index, capital return.

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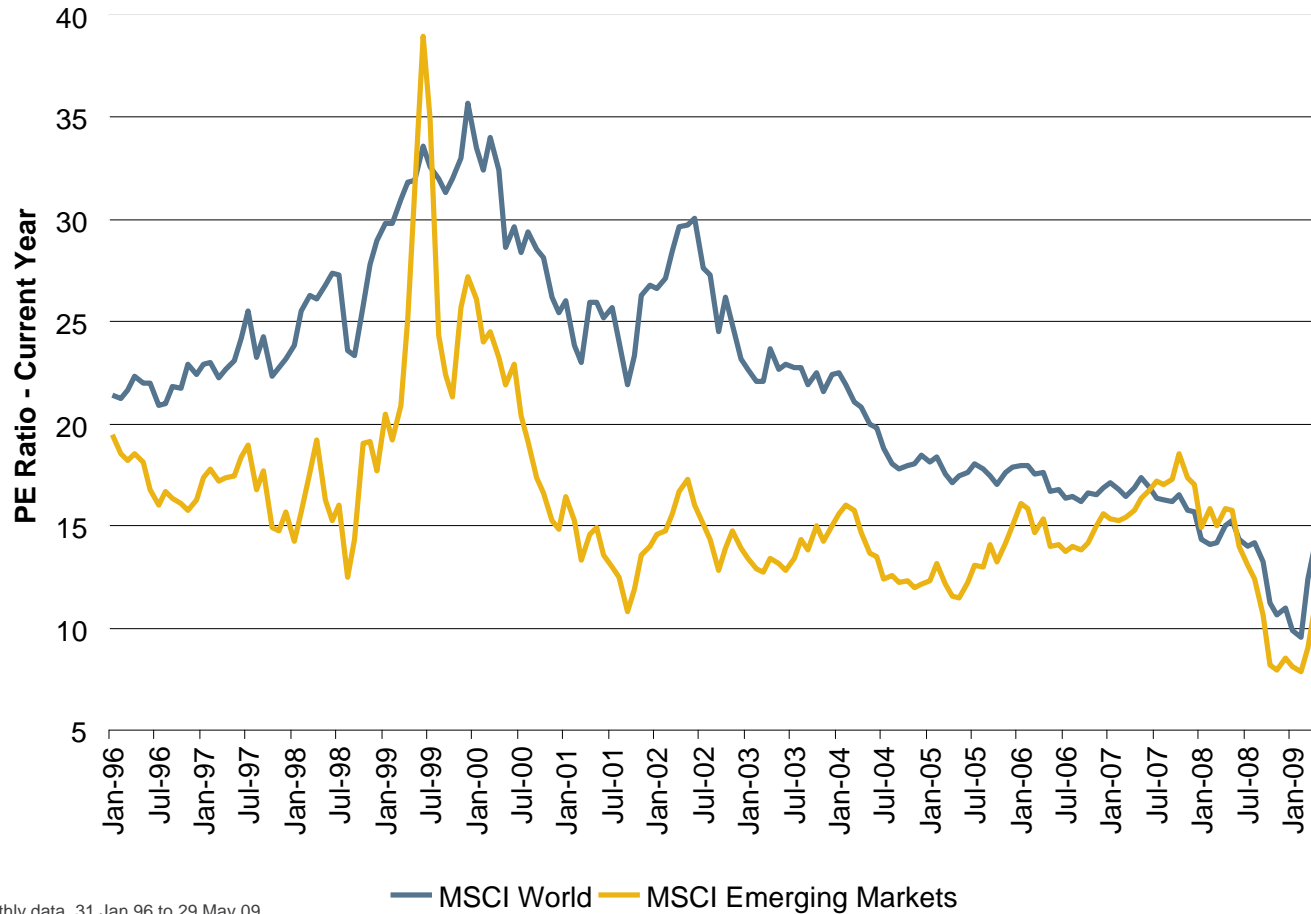
Portfolio Strategies and Positioning

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Outlook and Summary

Current Valuations are Cheapand Discount to Developed Markets has Reappeared

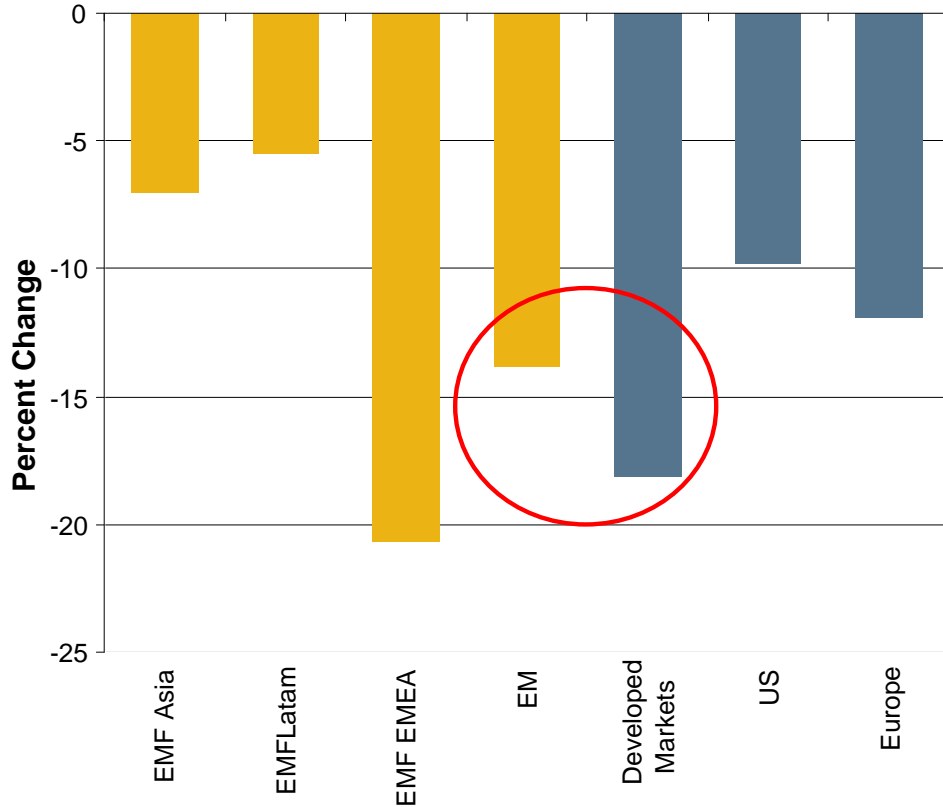


Source: Bloomberg, monthly data, 31 Jan 96 to 29 May 09

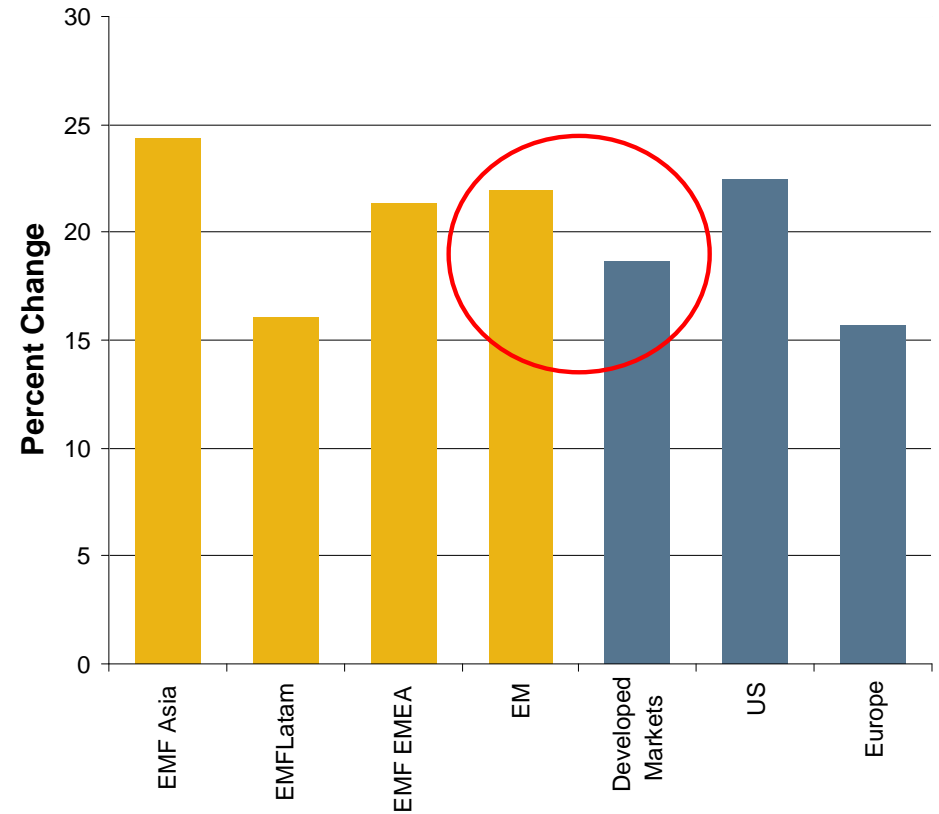
Favourable Valuations...

...Underpinned by Strong Relative Earnings Growth

EPS Growth Estimate 2009



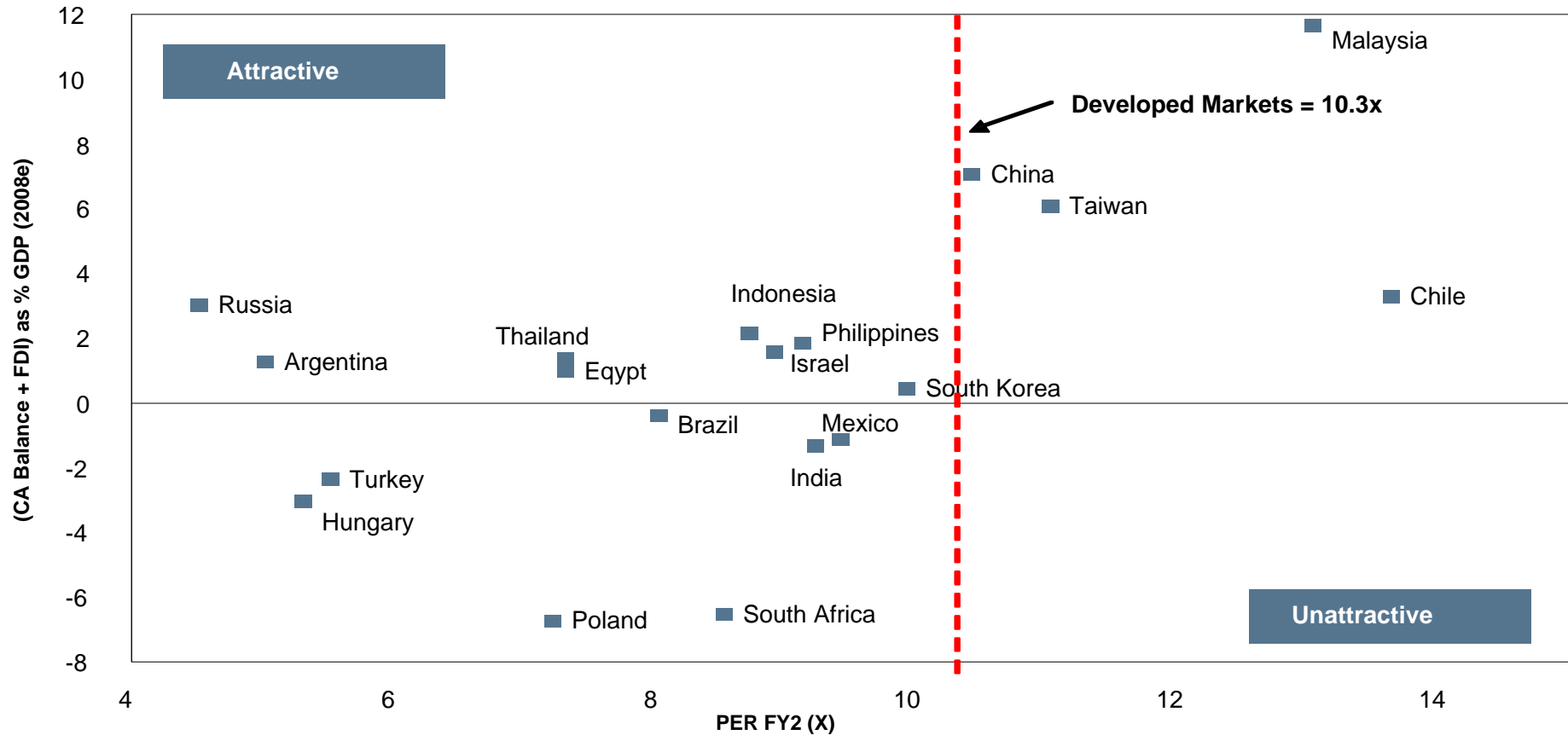
EPS Growth Estimate 2010



Source: JP Morgan EM Strategy Dashboards 28 May 2009, Data: JPM, I/B/E/S, MSCI

Strong Fundamentals and Good Valuations

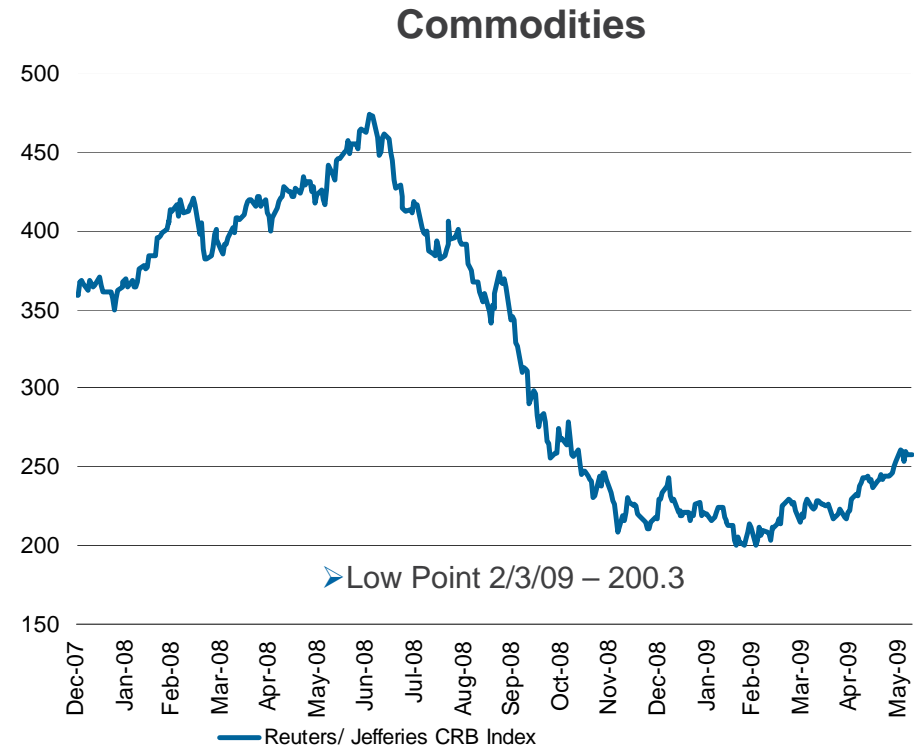
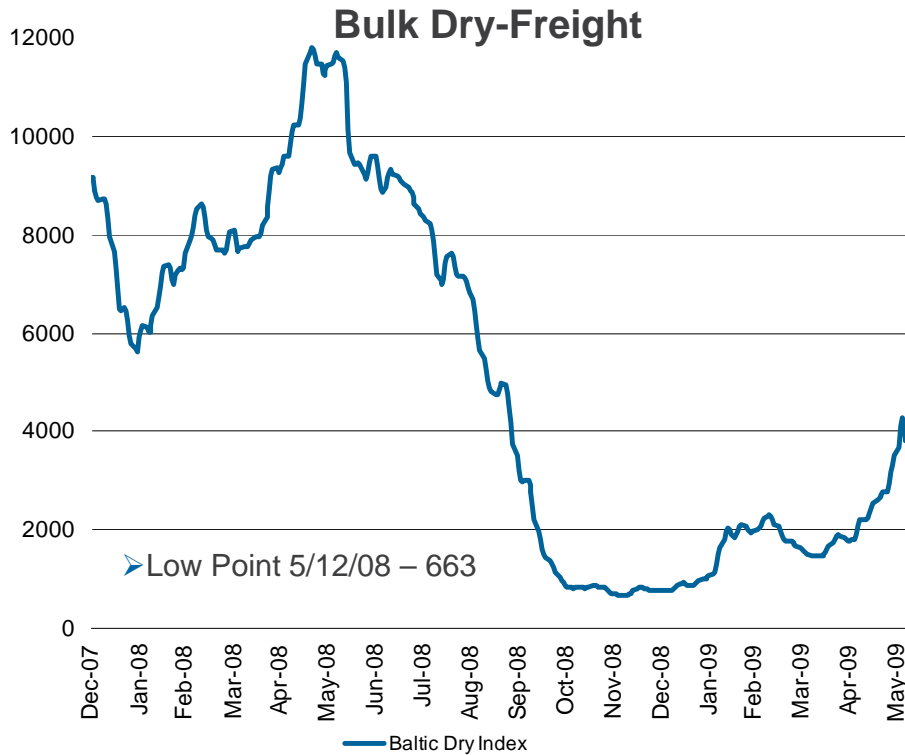
Positive Fundamental Balances + Low PE Ratios = Attractive Markets



Source : FactSet 23 March 2009 for PEs, HSBC March 2009 for CA+FDI data, MSCI World Index for Developed Markets PE.

Key Emerging Market Indicators

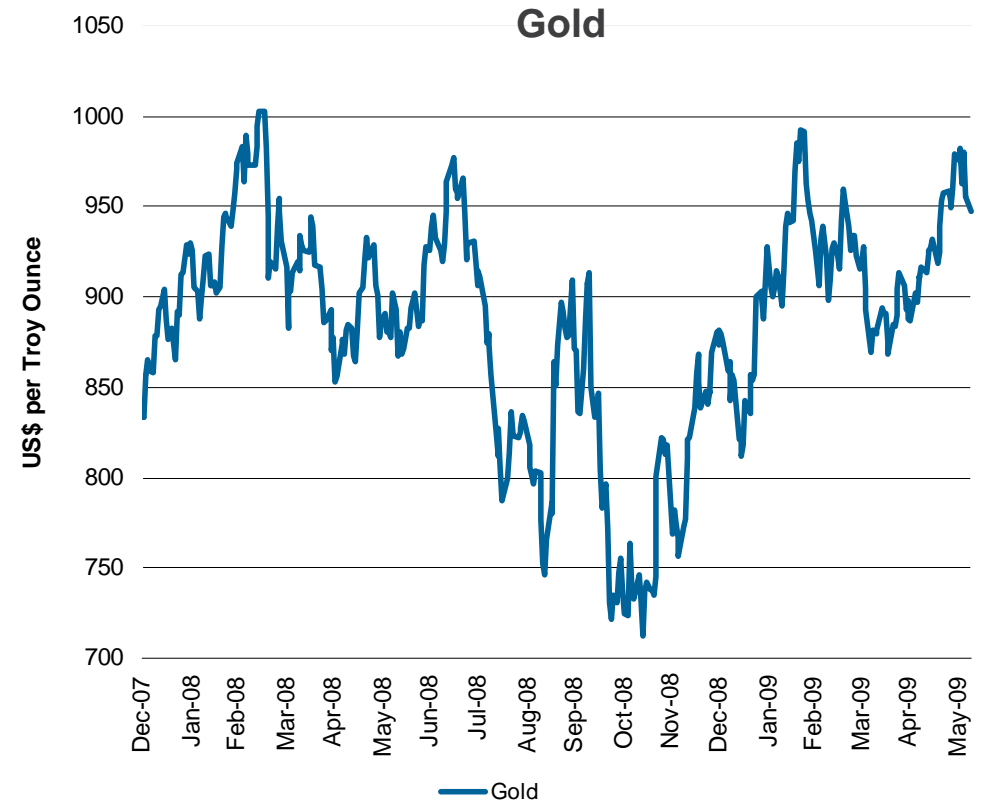
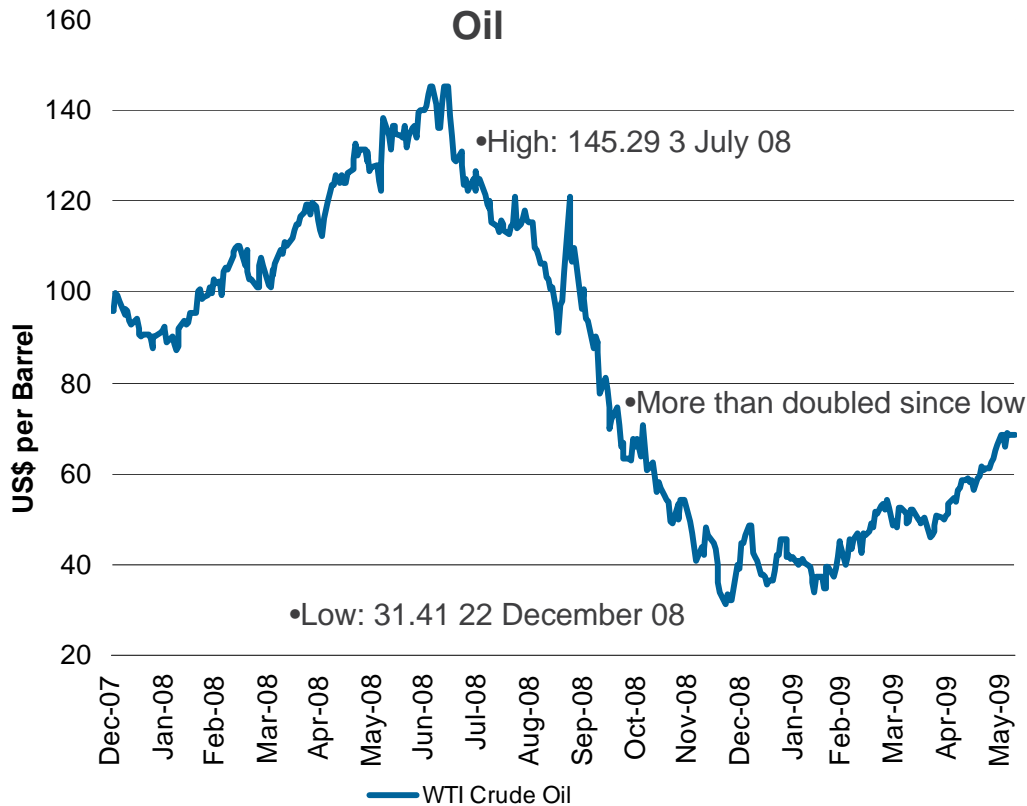
Freight Costs: Up More Than Fivefold From Lows. Commodities: Up around a Quarter



Source: Bloomberg, data to 5 June 2009

Key Emerging Market Indicators

Oil: Down Heavily but Big Momentum from its Lows. Gold: Safe-Haven Demand



Source: Bloomberg, data to 5 June 2009

Market Review

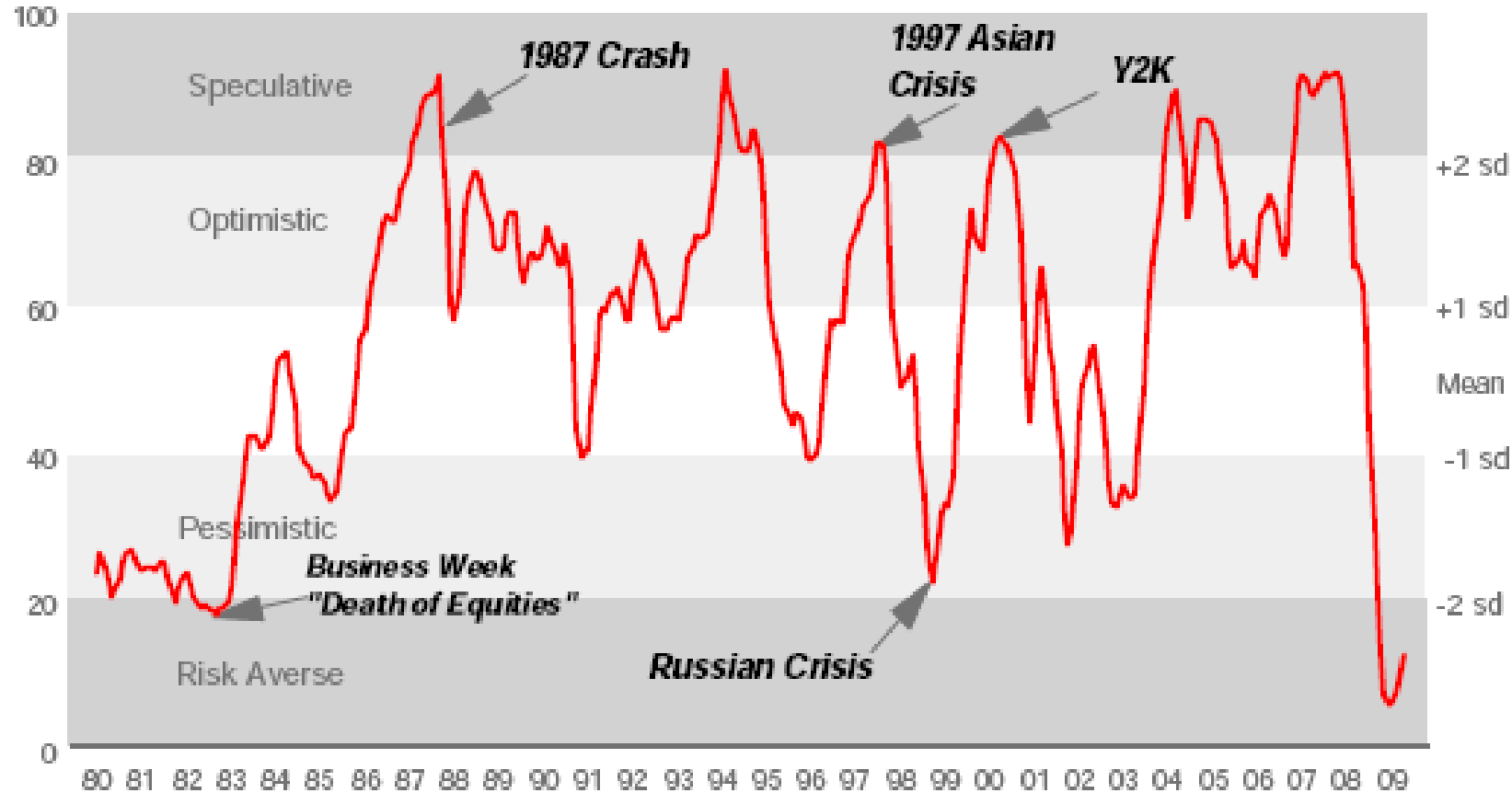
Emerging Market Spreads Contracting Sharply from Extreme Levels



Source: Bloomberg, monthly data 31 Dec 99 – 29 May 09

Investor Exposure (Sentiment) To Emerging Markets

June 2009 – EM Followed Developed Down But Has Already Turned

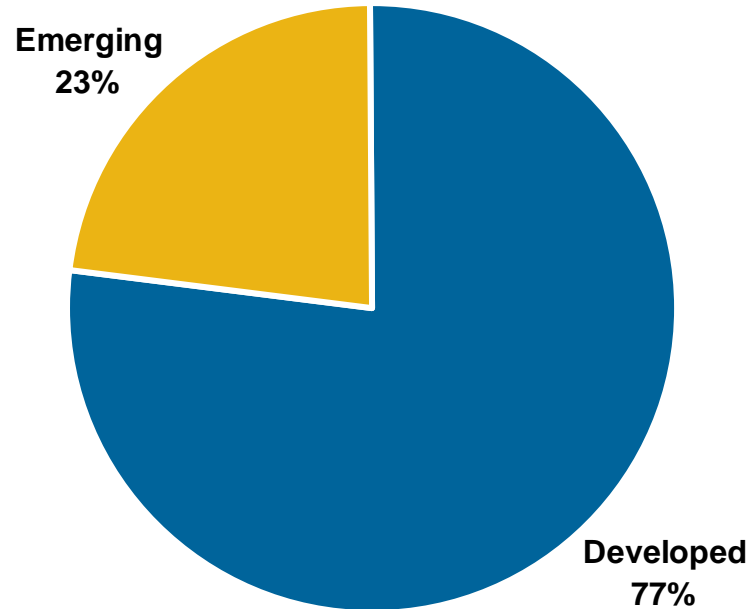


Source: CrossBorder Capital, Implementing Insight June 2009

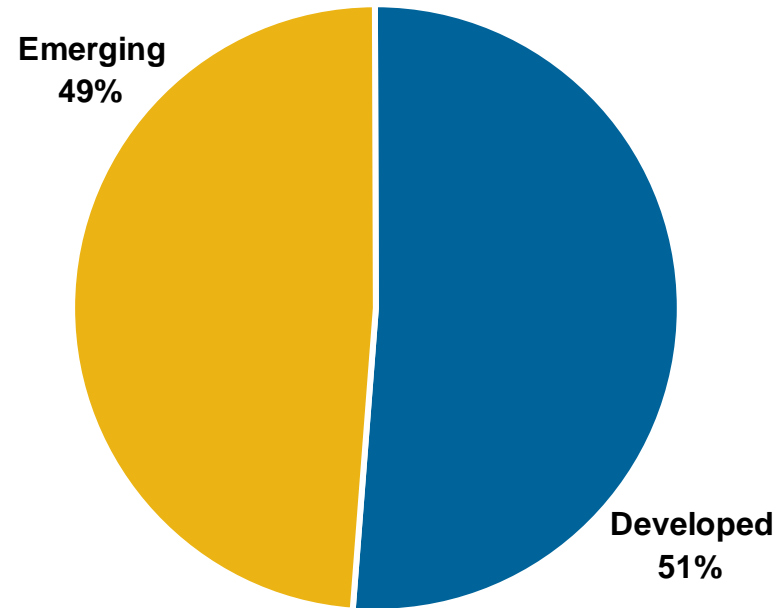
Huge Growth in Emerging Equity Markets Forecast

EM Share of Global Market Cap Forecast to More than Double in Next 20 Years

2009 Market-Cap



2029 Market-Cap



Source: CrossBorder Capital: Implementing Insight June 2009. Data as at End-2008.

Summary

- Emerging markets have lost none of their vigour
- Earnings recovery in 2010 is being discounted – expect pull back before further advances
- Decoupling or global rebalancing of wealth is secular and real; not just cyclical and apparent
- Secular trend of wealth transfer from high to low income countries will continue – as will urbanisation
- New markets: Saudi Arabia, Vietnam
- Key risks:
 - China slow down in second half of 2009
 - Central bank policy error: e.g. Fed, US dollar and the Triffin Dilemma
 - ‘Downfall of the West’ – more corporate/systemic failures?
 - Geopolitics and social unrest (Iran/Pakistan/N Korea)

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