



Fixed Income Investing

The Danger of Duration

*IAPF Conference
Dublin – October 1st 2013*

David Greene – Client Portfolio Manager

8^{YEARS}
1928 2013

 **PIONEER**
Investments®

Pioneer Investments

Summary of Our Business

Autonomous asset management company of Unicredit Group

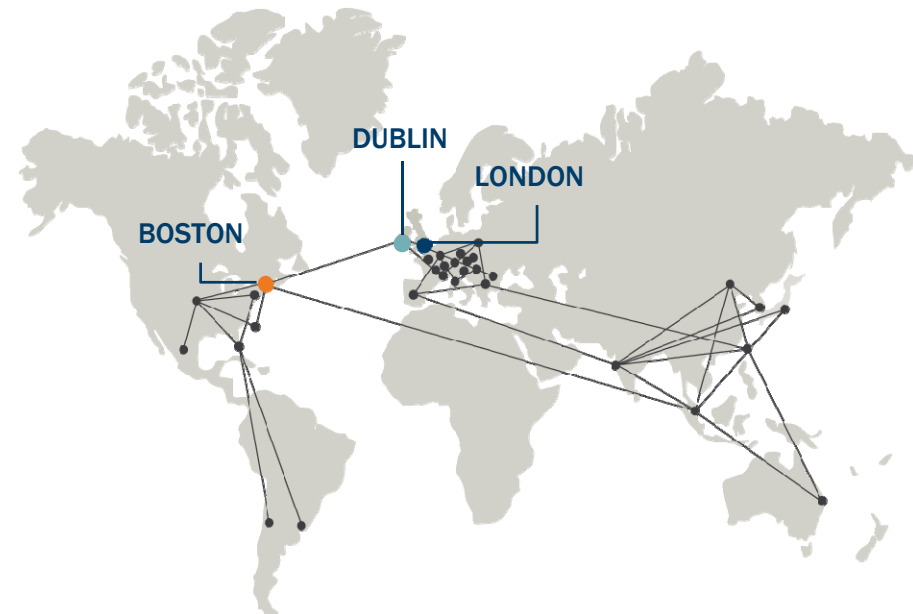
- Founded in Boston in 1928
- Three Global Investment Centres:
Dublin, London, Boston

€167 billion assets under management

- Active Fixed Income is our primary strength
€100 billion in client assets globally

Irish Institutional business launched in 2008

- Fixed Income is key focus
Euro Government, Corporate, Aggregate & Absolute Return
- Excellent Performance...absolute, relative & risk-adjusted
- Strong Client relationships & Consultant ratings



Pioneer Investments – a world class fixed income manager.... based in Ireland

Pioneer Investments

Three Main Investment Centres – Full Coverage of Fixed Income Universe

Boston

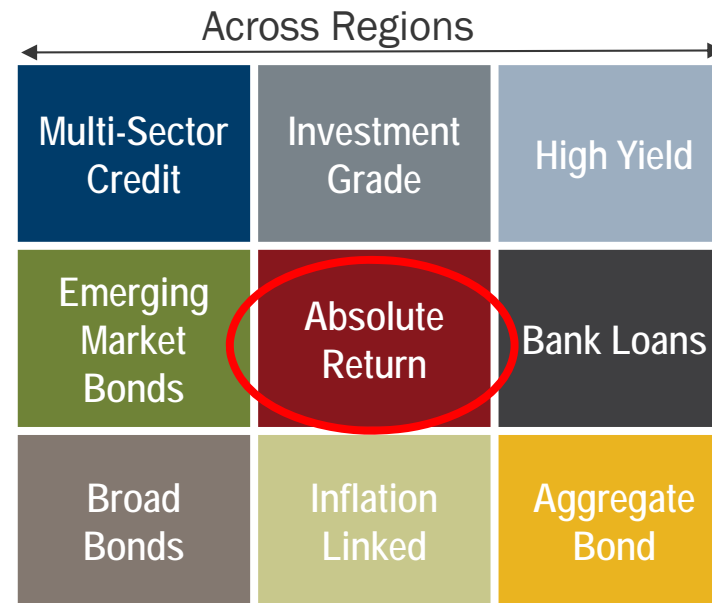
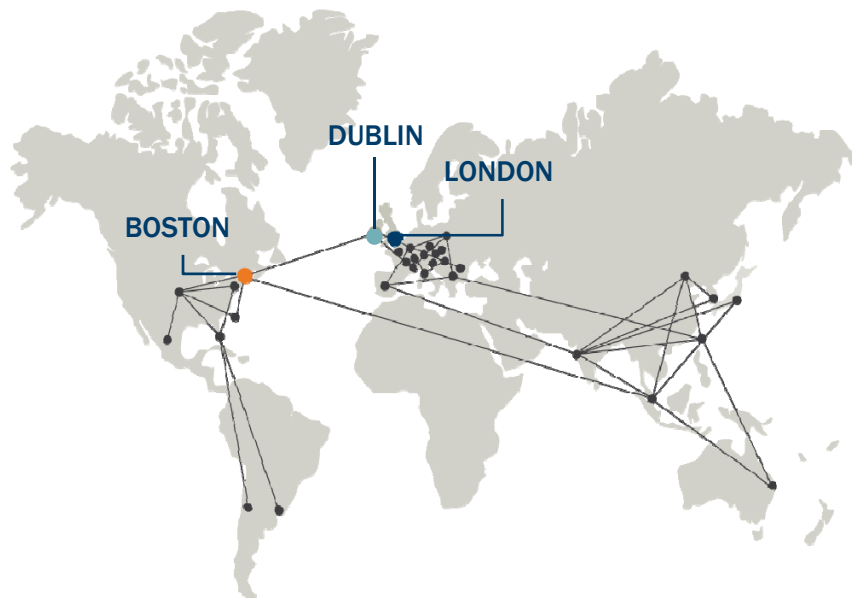
Multi Sector Credit, Broad Bonds,
U.S. & Global High Yield

Dublin

Global & Euro IG Fixed Income,
Absolute Return

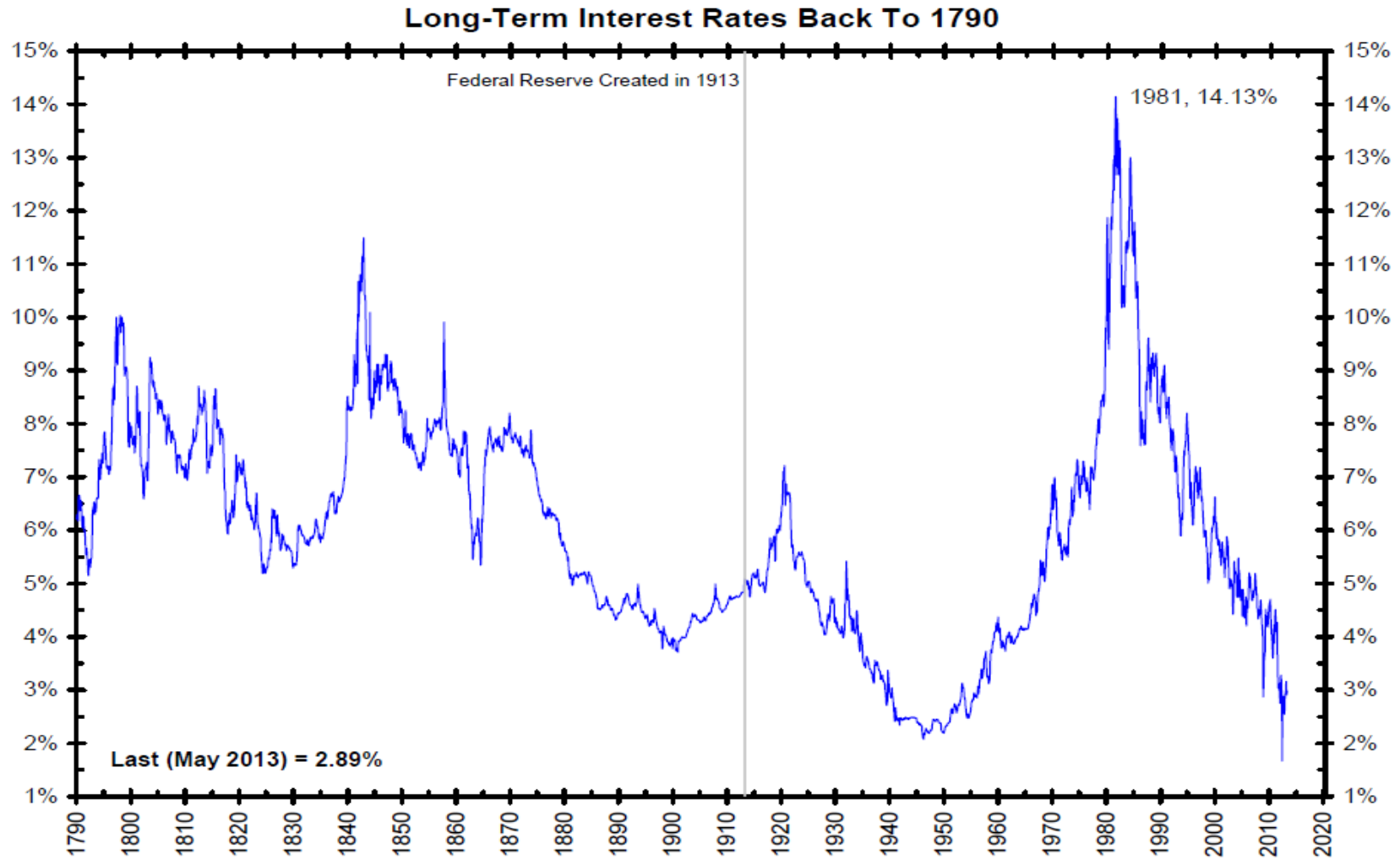
London

Emerging Markets in HC & LC
Euro High Yield



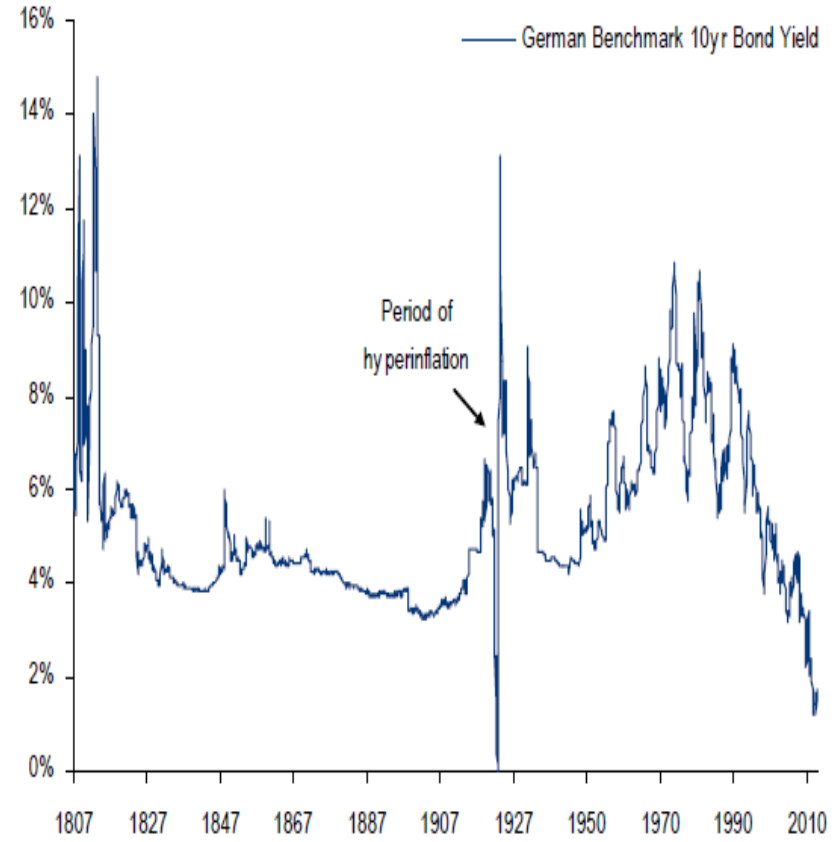
Dublin our biggest investment centre globally

The Only Way is Up...



Source : Foundation for the Study of Cycles, May 2013

There are no new eras Excesses are never permanent...

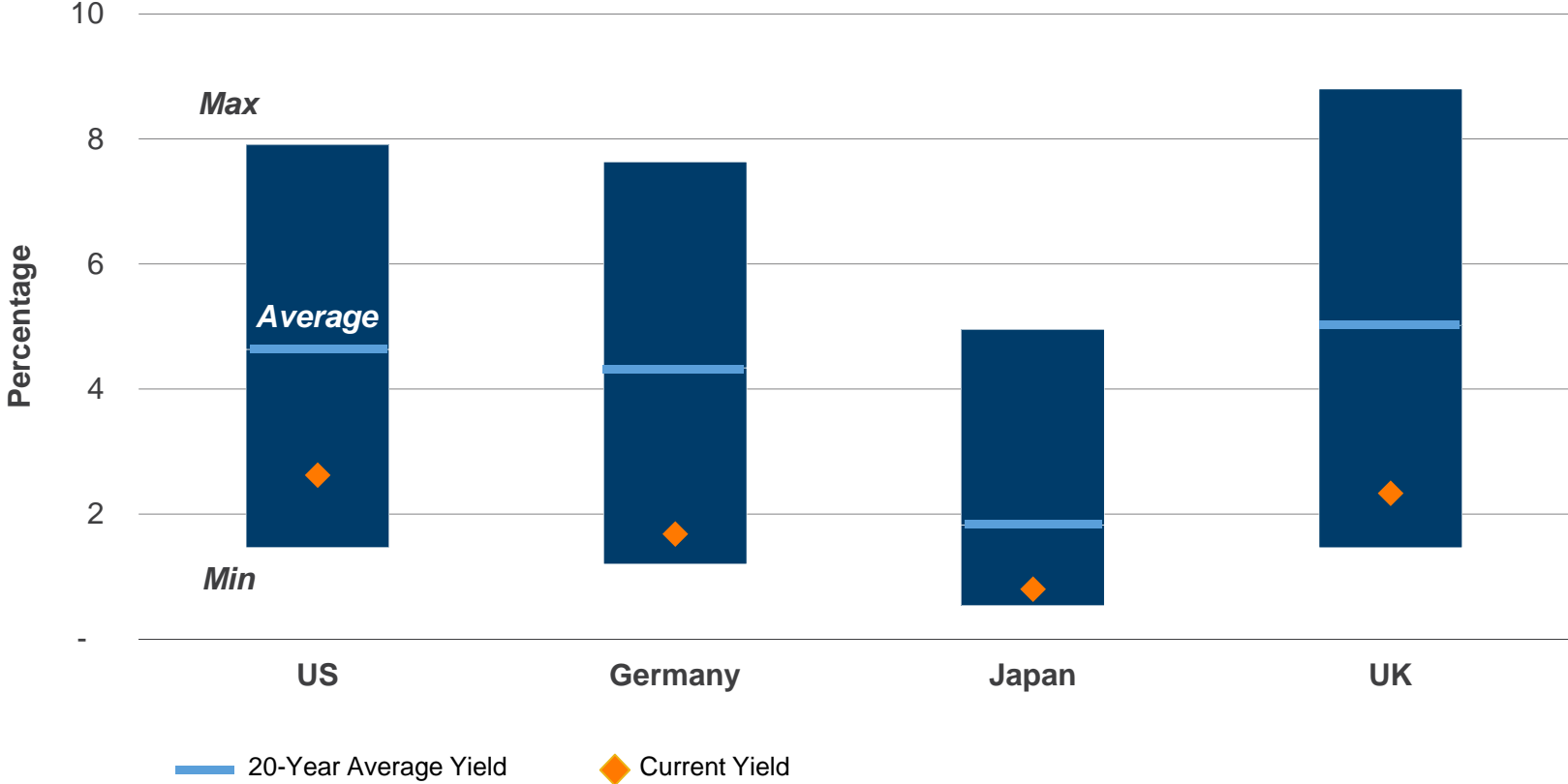


*Bob Farrell – Chief Stock Market Analyst – Merrill Lynch

A Low Interest Rate Environment

Nominal Rates below their 20-year averages

Current 10-Year Core Government Bond Yields vs. Average

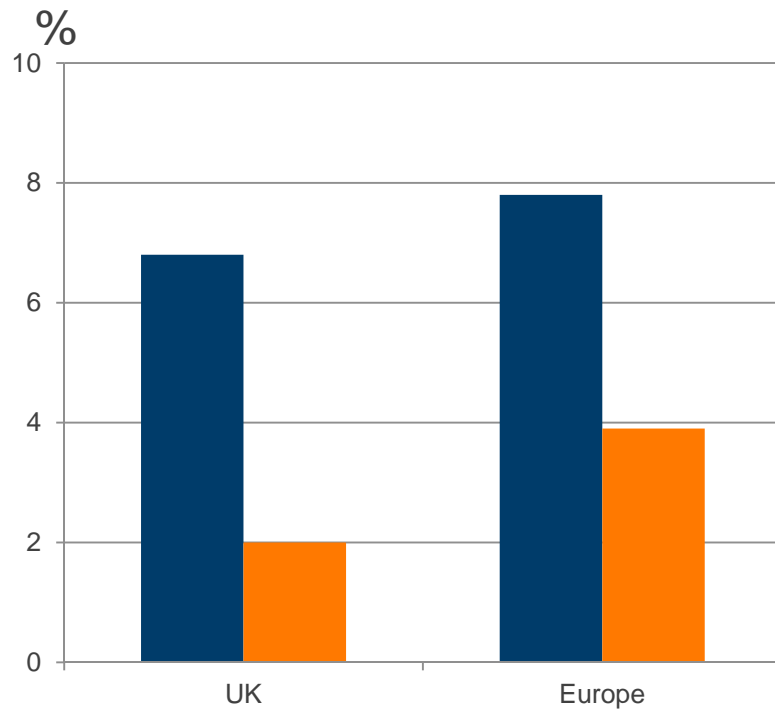


Source: Bloomberg. Data as of 30 June 2013.

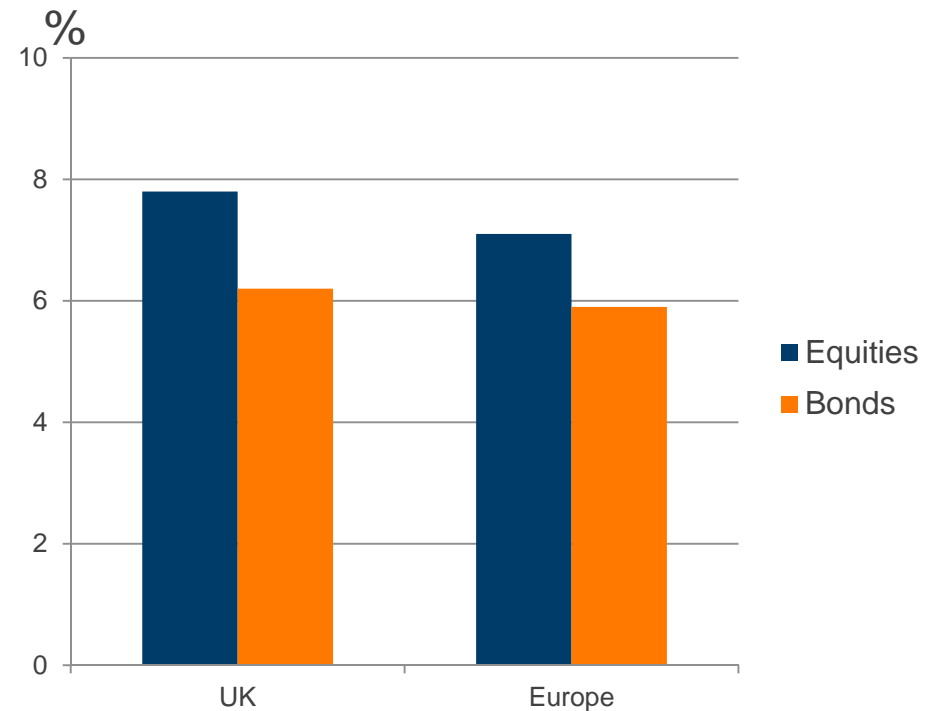


We have been spoilt...

Annualised returns on equities and bonds.....



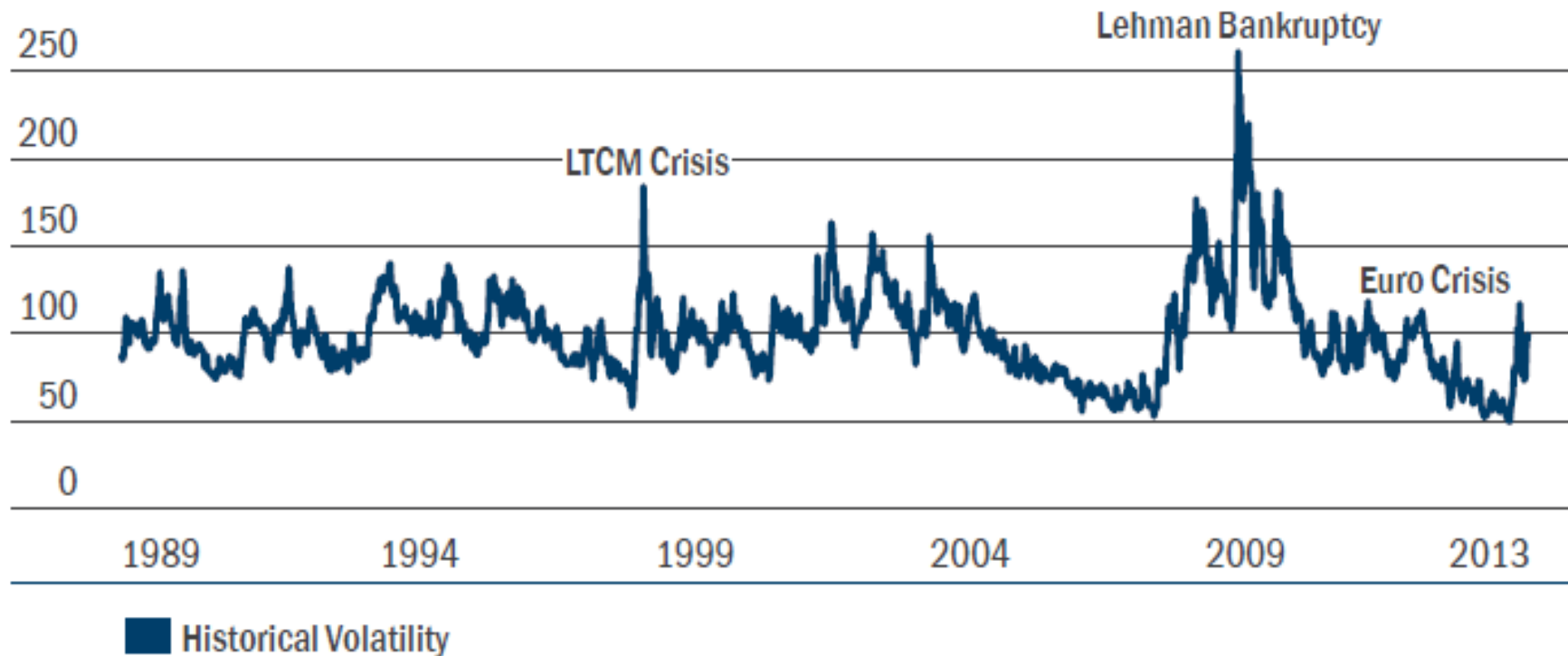
Since 1950 = Baby Boomers



Since 1980 = their children

Volatility is Increasing again...

Fixed Income Volatility at Historic Lows Encourages Risk-Taking



Source: Bloomberg/Pioneer Investments as at 23 August 2013.

Every cloud has a silver lining...

- Discount rates linked to bond yields....strong correlation
- As discount rates rise, pension fund liabilities fall
- Mercer noted that the rise in bond yields in June improved UK pension funds' finances by £16bn. (Investment values fell £15bn but liabilities improved by £31bn)
- Goldman Sachs noted that a 1.2% rise in interest rates would improve the average pension fund solvency of European companies from 77% to 94%
- PwC say 10-year UK gilt yields might rise to between 4% and 5.5% by 2025 – levels that would largely erase the UK's entire pension fund deficit

HOWEVER....

- Rising Yields is classic double edged sword.....

Good for Liabilities / Bad for return-seeking fixed income assets...

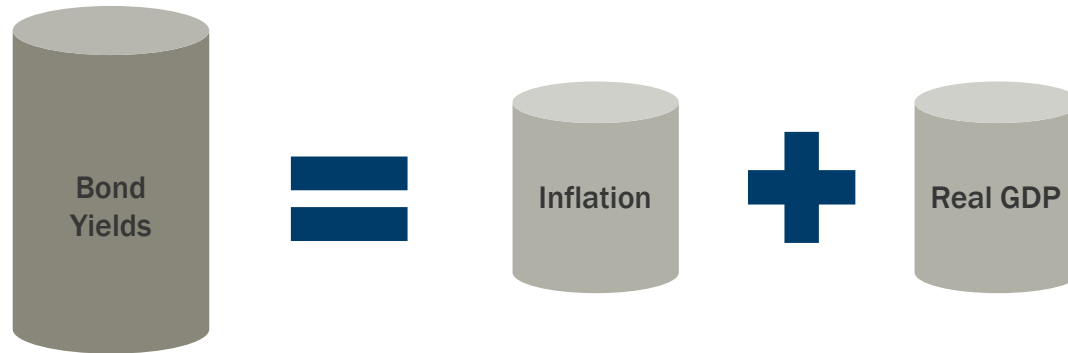
Plenty of Risks and Opportunities Ahead

We expect the next few quarters to be among the most volatile of the last few years

- Change in Fed policy and new leadership
- ECB flexibility
- Japanese QE
- Change in banks/brokers business models
- Ending of QE and it's effect on BRIC's
- Global rebalancing

Finding A Fair Value For Bonds

Bond yields are a function of inflation and GDP



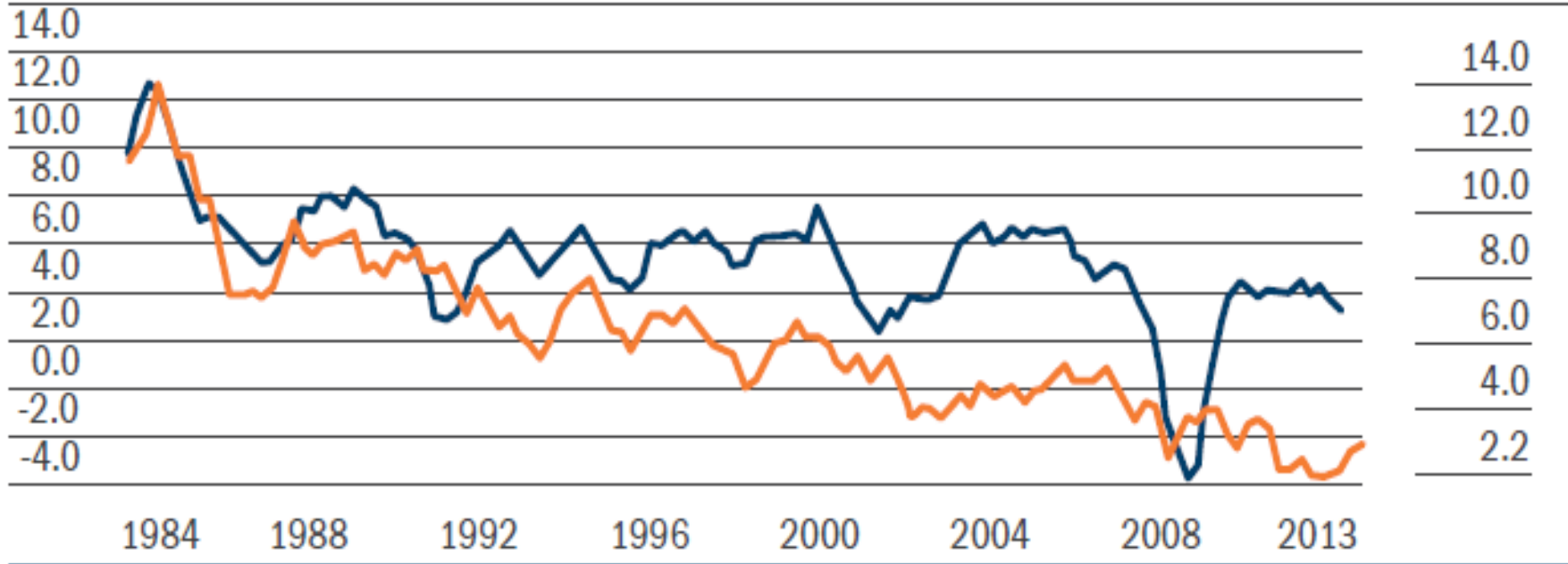
	US	Europe
Trend GDP	2.5%	1.5%
Inflation	2.0%	2.0%
Bond Yield	4.5%	3.5%

Source: Pioneer Investments. Data as at 23 August 2013

US Yields are probably too low

Current US Nominal GDP Levels Suggest US Yields Are Too Low

US Nominal GDP vs. US Treasury 10yr Yields



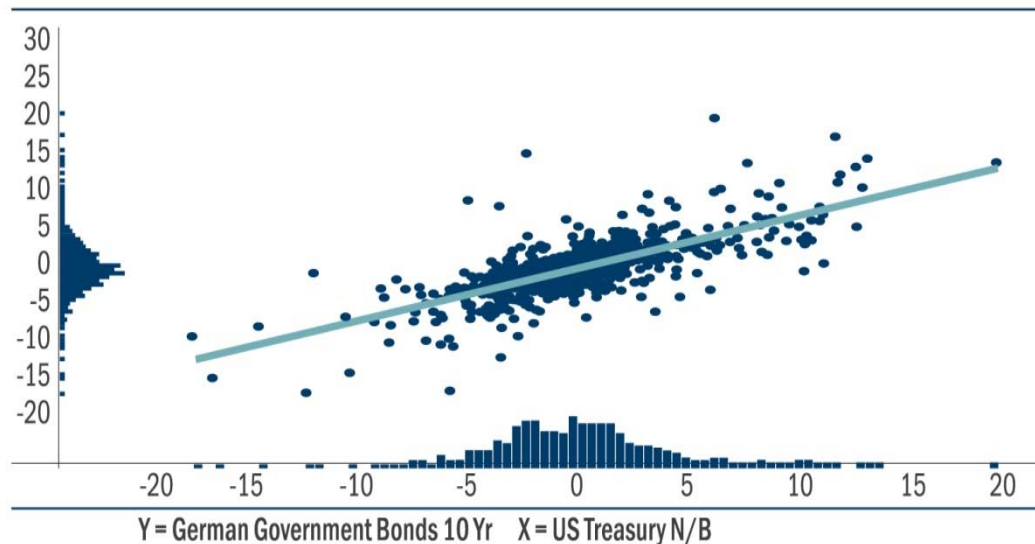
■ US Nominal GDP (yoy) (LHS) ■ US Treasury 10 yr yield (RHS)

Source: Bloomberg/Pioneer Investments as at 10 July 2013.

European Bond Yields Can't Ignore Rising US Bond Yields

Analysis proves a 45%-55% correlation between US Treasuries and German Bunds

Weekly Correlation 10-Year US Bond and 10-Year German Bund



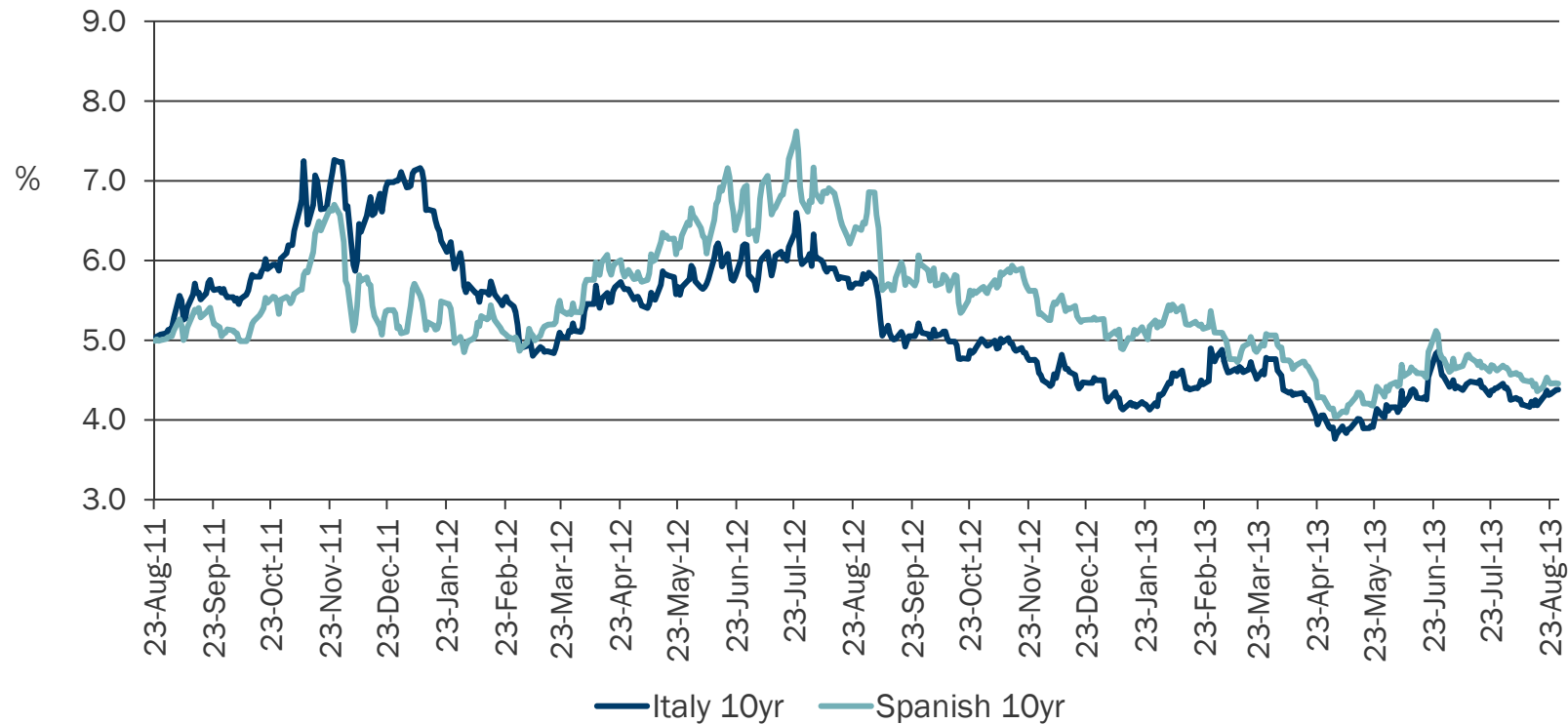
13 August 1998 – 13 August 2013

Item	Value
BETA	0.710
ALPHA (Intercept)	-0.045
R ² (Correlation ²)	0.571
Durbin Watson	2.078
Std Dev of Error	2.429
Std Error of ALPHA	0.087
Std Error of BETA	0.022
Number of Points	782

Source: Bloomberg / Pioneer Investments. Data as at 13 August 2013

“Safe-Haven” Bond Flows to Reverse

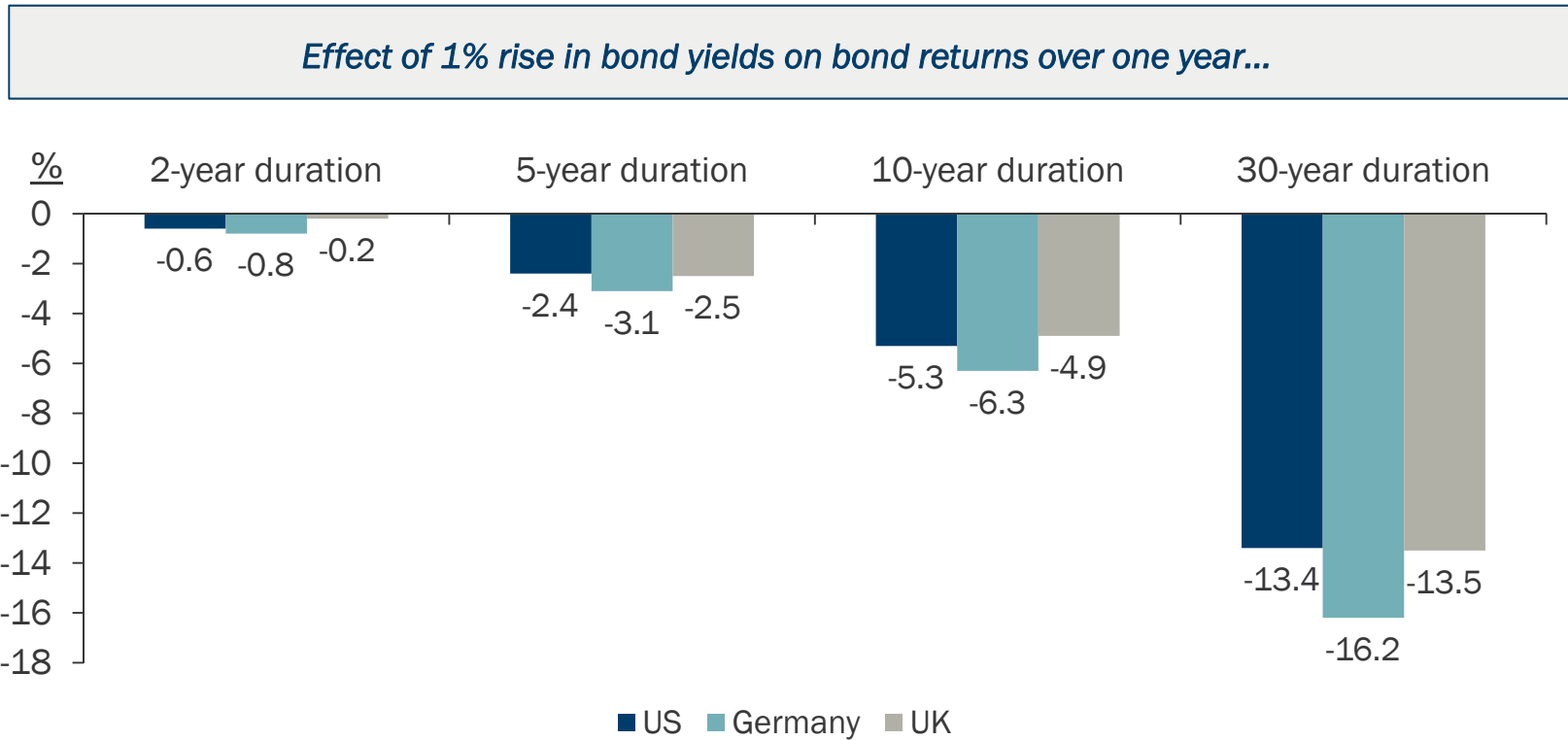
Euro crisis calming - suggesting “safe-haven” bonds flow will reverse;
Putting upward pressure on core bond yields globally.



Source: Bloomberg / Pioneer Investments. Data as at 23 August 2013

The Danger of Duration

In a period of rising bond yields, any duration exposure can cause losses



Duration now Dangerous??

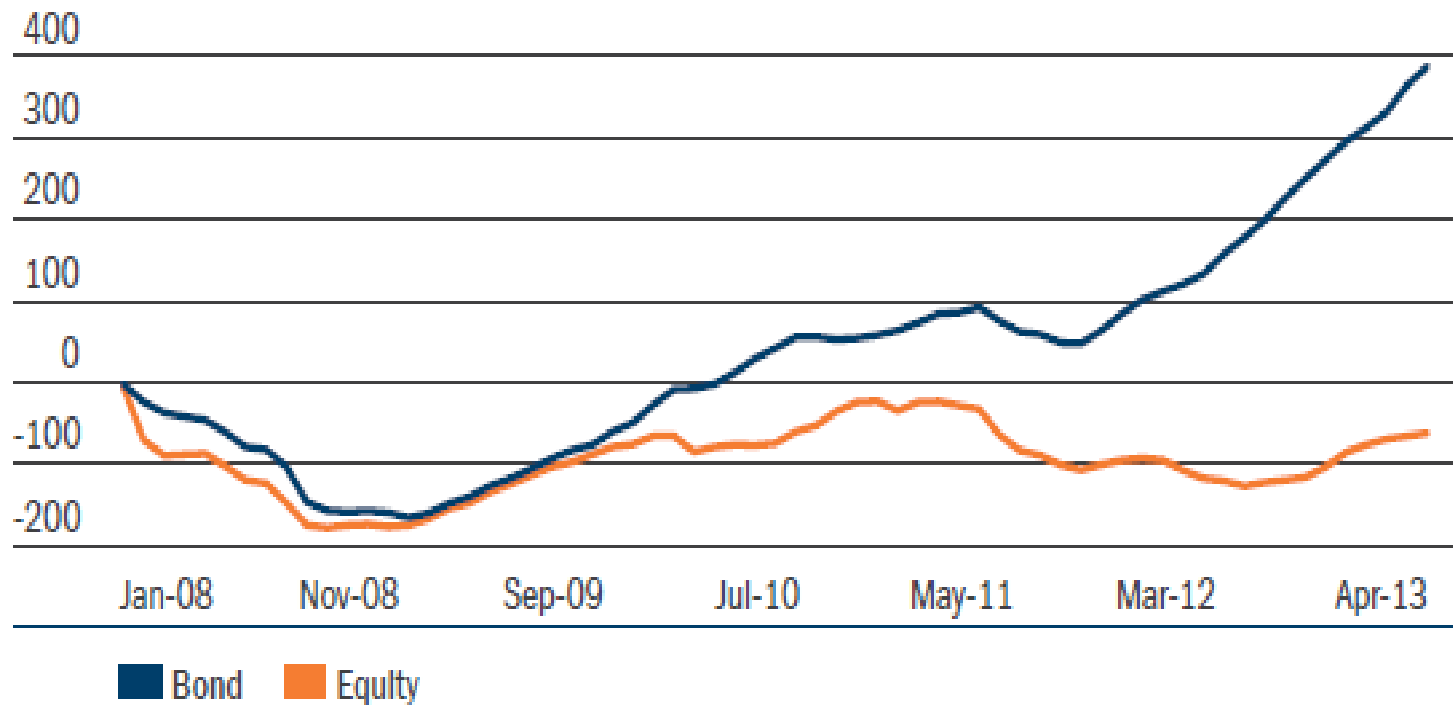
Source: Bloomberg / Pioneer Investments. Data as at 23 August 2013



As long as the music is playing, you've got to get up and dance...

Fund Flows Have Favoured Bonds, But Will Investors Be Able To Sell ?

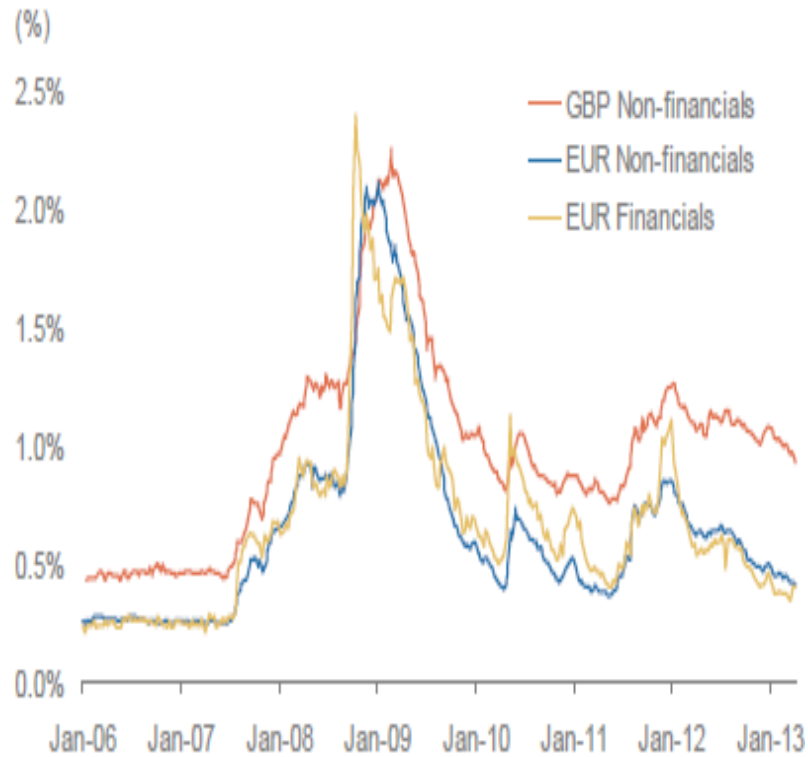
Fixed Income and Equity Cumulative Monthly Net Sales (€bn.) - January 2008 to May 2013



Source: Pioneer Investments as at 31 July 2013.

But will we all be able to get off the dance floor ?

European Bid/Offer as % of Bond Price



Source: Markit iBoxx, Morgan Stanley Research
 Source: MS. Data as of 13/08/2013.

Primary Dealer Holdings of Corporate Bonds



Source: Bloomberg, Federal Reserve Bank of New York

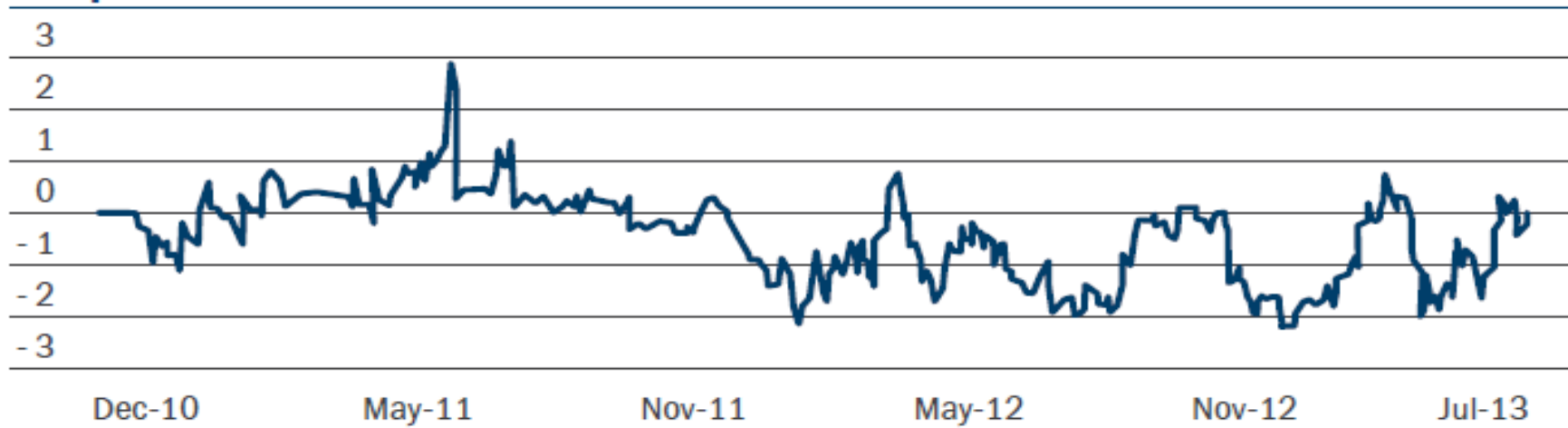
Fixed Income becoming a Return-Free Risk ?

- The combination of cheap QE money and low volatility has fuelled risk taking and resulted in financial repression
- This has forced investors to either accept a rate of return on investment below the rate of inflation or realise a negative real return on assets
- Yields are too low to compensate for the increased riskiness of sovereign debt
- Due to the concept of negative real returns, going forward investors are facing a return-free risk

The Solution

Implement an Absolute Return Bond strategy that is uncorrelated to duration and has the ability to generate returns in all market conditions

Duration Positioning of Pioneer Investments Absolute Return Bond Strategy Since Inception



Source: Pioneer Investments as at 15 August 2013.

How to construct an Absolute Return Bond strategy?

Must have a number of key characteristics :

- A cash benchmark as opposed to being benchmark-constrained
- The ability to run negative interest rate and credit spread duration positions
- A return which is derived from a number of well-diversified sources of alpha and lowly-correlated strategies rather than having one or two primary drivers of performance
- Strong & disciplined risk/drawdown management techniques

*'Caveat Emptor' – be **ABSOLUTELY** sure it does what it purports to do.....*

What's gone wrong for some Absolute Return funds ?

Why have many Absolute Return Bond funds suffered negative performance YTD?

- Significant systematic risk (or market beta/risk)
- High correlations between positions/trades
- Poor risk management techniques
- Exposure to High Yield and Emerging Markets.....*and in some extreme cases equities !*

Many such funds are NOT actually Absolute Return Funds but Total Return Funds

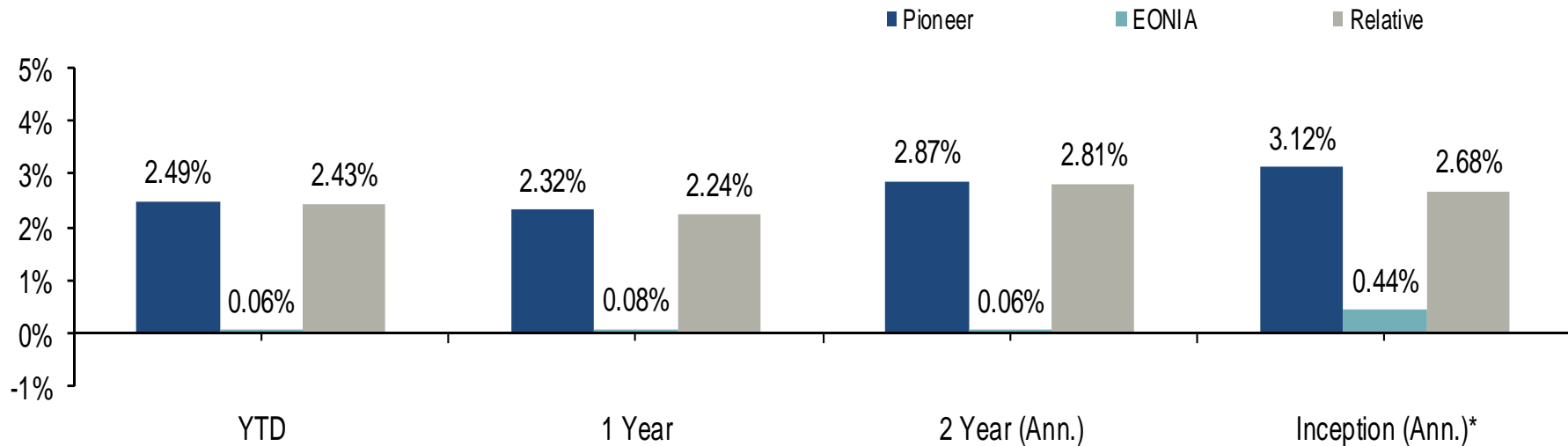
When the tide goes out.....you know who's been swimming naked...

Pioneer Investments

How we have constructed our Absolute Return Bond strategy

Strategy Profile

- Pure alpha driven fund – no inherent market beta/risk
- Cash/EONIA +3% performance target
- Managed by a large team of specialist fixed income portfolio managers
- Typically 40–60 uncorrelated alpha strategies
- Embedded risk management & drawdown prevention
- Continuous focus on consistent steady returns for clients



Source: Pioneer Investments. *Data refers to Pioneer Funds – Absolute Return Bond, Class H, Gross, Euro. * Inception data 1st December 2010.

Thank You.....

Questions / Comments
Please

Biography

David Greene– Client Portfolio Manager



David Greene is a Fixed Income Portfolio Manager with 25 years' experience in financial markets and is based in Pioneer Investments' Dublin office.

Prior to joining Pioneer Investments, David was Managing Director of Conning Asset Management (Europe) Ltd, specialising in insurance asset management. Here David was responsible for the management of Conning's non-US dollar fixed income assets. Before joining Conning, David was a senior fixed income Portfolio Manager at KBC Asset Management Ltd, Ireland's fourth-largest pension fund management company.

At Pioneer Investments, David is responsible for the euro-domiciled fixed income products and his role involves presenting the investment philosophy, process and performance of our fixed income products to clients and consultants.

David represented Ireland on numerous occasions in youth sailing and continues to be an active sailor. He was educated at University College Dublin, receiving a Bachelor of Commerce and Master of Business Studies degree.

Disclaimer

Unless otherwise stated all information contained in this document is from Pioneer Investments and is as at 30 July 2013.

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