

# Pioneer Absolute Return Credit Fund

## *Performance Analysis and Commentary*

December 2011

### **Fourth Quarter Review**

- The Fund's Class A shares returned 0.53% at net asset value in the fourth quarter, while the Fund's benchmark, the Bank of America Merrill Lynch (BofA ML) U.S. Dollar 3-Month LIBOR Index, returned 0.08%.
- A primary contributor to the Fund's performance during the quarter was a 43% allocation to high-yield corporates, which returned 6.77% (outperforming the overall high-yield market) and added 271 basis points (bps) to portfolio returns.
- We believe the Pioneer Absolute Return Credit Fund is well-positioned for what we expect to be a strong first half of 2012 for "risk" assets; we have taken off the Fund's emergency hedge and dramatically reduced its other hedges, so that the portfolio will behave more like a high-yield portfolio.

Improving economic data in the U.S., including stronger estimated gross domestic product (GDP) growth, was fueled by better-than-expected consumption in the fourth quarter, as the economy overcame ongoing concerns about the eurozone crisis. Risk markets rallied during the quarter, particularly in the U.S., as the Standard & Poor's 500 Index (the S&P 500) returned 11.80% over the three months ended December 31, 2011. Consumption, along with consumer confidence, improved during the fourth quarter, buoyed by stronger employment data: weekly unemployment claims had declined to below 400,000 in the final weeks of 2011, while non-farm payrolls had risen by 200,000 as of year-end.

Treasury yields fell slightly during the quarter, with the 10-year Treasury yield declining from 1.93% to 1.87% and the 30-year Treasury yield dropping from 2.92% to 2.89%.

Investment-grade corporates returned 1.93% during the quarter, outperforming Treasuries. From a sector perspective, financials returned 1.22%, while industrials returned 2.28% and utilities returned 2.24%.

High-yield corporates posted a strong 6.18% return during the quarter, as spreads (the difference in yields between Treasuries and lower-quality issues with similar maturities) narrowed from 841 bps to 723 bps. CCC-rated securities outperformed, returning 8.07% for the quarter, while BBs returned 5.54% and single Bs returned 6.30%. High-yield convertibles returned 4.64%. Municipal bonds posted positive returns, with the market returning 2.12%; high-yield municipals returned 0.79%.

As the inflation outlook weakened, floating-rate asset classes underperformed during the quarter, as bank loans underperformed high-yield corporates, returning 3.08%. Event-linked (CAT) bonds returned 1.03%, and non-agency mortgage-backed/asset-backed (MBS/ABS) securities, as represented by the Bank of America Merrill Lynch (BofA ML) Floating Rate Non-Agency Asset-Backed Securities Index, also faltered, returning 0.11% as investor concerns about forced selling by European banks increased.

On the international front, European high yield returned 4.04% on a local market basis; on a U.S. dollar basis, however, that return fell to 1.08%. Emerging market sovereigns posted a 4.79% return, while emerging market corporates returned 4.35% on a local market basis, and 3.73% on a U.S. dollar basis. Risky emerging market corporates returned 5.59% locally, for a 4.75% U.S. dollar return.

The U.S. dollar rallied strongly against eurozone currencies during the quarter, gaining 3.29% against the euro. But the dollar underperformed certain commodities-oriented currencies, such as the Canadian and Australian dollars.

### **Sector Allocation and Security Selection**

The primary detractors from the Fund's fourth quarter returns were its hedge positions, which cost -2.81% of performance. The Fund will tend to underperform during transition periods when spreads change direction. During the fourth quarter, spreads reached their widest levels in October; as spreads began to tighten, the Fund's hedges were reduced.

In December, the Fund returned 1.07%; but without the hedges, the return was 3.55%.

The primary contributors to the Fund's performance during the quarter included a 43% allocation to high-yield corporates, which returned 6.77% (outperforming the overall high-yield market) and added 271 bps to returns. Bank loans, which accounted for 13% of the portfolio's assets, returned 3.6% and contributed 43 bps to performance during the quarter. The Fund's 4.5% allocation to convertibles

added 31 bps to performance. The only asset class in the Fund's underlying portfolio that had a negative effect on performance during the quarter (-22 bps) was a 2% investment in municipals, as the American Airlines (AMR) bankruptcy reduced Fund performance by approximately -25 bps (all AMR-related municipal issues were sold from the portfolio by the end of November).

With respect to security selection, positions in Nara Cable, Canadian government bonds, Novellus convertibles, Chrysler loans and Quicksilver Resources contributed to the Fund's performance during the quarter. Issues detracting from portfolio performance during the quarter included the aforementioned American Airlines-related municipals, Xinergy, convertibles of James River Coal and Nuvasive, and State Street Capital perpetuals.

The Fund's derivatives hedges — which are geared to hedging the high-yield and bank loan exposure in the portfolio, and which also were the biggest contributors to performance in the third quarter — were the largest detractors from performance in the fourth quarter, as risky assets outperformed. Of the total -2.81% negative effect the hedges had on Fund performance, the largest individual detractor was a Chicago Board Options Exchange Market Volatility Index (VIX) hedge, which hurt performance by -1.69%. The Fund's Standard & Poor's (S&P) Index hedge, which hedges against widening spreads, hurt performance by -0.62%. Finally, the Fund's emergency, long-Treasury hedge hurt performance by -0.49%. This hedge was taken off early in the quarter as equity markets recovered.

## Current Outlook and Positioning

We believe the U.S. economy will experience modest growth of more than 2% in 2012, a rate consistent with slow, protracted recoveries from "balance sheet"-caused recessions. Consumption data has exceeded expectations, reflecting an improving employment situation, the benefits of the payroll tax cut enacted at the beginning of 2011, and declining gasoline prices that also occurred earlier in the year. While Europe may enter (or already be in) a recession, growth in emerging markets may be nearing a bottom and could improve in response to the lagged effects of monetary easing among emerging countries that began last August.

The greatest risk to our forecast is the possible contagion effects of the European sovereign-debt and banking crisis. We believe the European Union must effect a comprehensive solution that includes recapitalizing the banks, ensuring funding for troubled sovereigns, achieving a workable fiscal and economic integration, and improving labor competitiveness in southern Europe, before the crisis can be defused.

The U.S. seems to be powering ahead despite the deflationary impact from Europe.

The key drivers for growth have been:

- Acceleration in employment and a much stronger-than-expected construction trend, albeit in the multi-family and retail spaces. In addition, it appears that local and state governments have reached the end of their layoffs. This is critical since governments' austerity measures have had a net drag on GDP for the last two years.
- Better-than-expected corporate earnings, as fourth quarter GDP in the U.S. was stronger than expected.
- The massive liquidity injection from the European Central Bank (ECB) through its stealth quantitative easing (LTRO) program. The ECB's balance has expanded, thus taking a "Lehman" moment off the table in terms of the region's banking system, and also putting a floor under sovereign bond prices. European high yield, which is cheap when compared with U.S. high yield, should benefit from this. That said, we are only selectively investing the Fund in European high yield, as we prefer to own exporters that will benefit from a weaker euro, or companies that have substantial assets or businesses outside of Europe.
- Monetary easing by all other central banks around the world, most importantly China.

This is not to say, however, that we are out of the woods. European leaders like Sarkozy and Merkel are still fiddling while Rome burns (and we have yet to see a meaningful political agenda that deals with the issue of lack of competitiveness in most European countries). In addition, our own political circus in the U.S. seems to be just getting started, and so we are less positive at the moment about growth in the second half of the new year.

In terms of fundamentals and valuation, credit markets are cheap and fundamentals remain strong. Underlying technicals are also supportive, with cash building up as new issuance has been low. And the risk environment appears to have calmed substantially as well,

suggesting that either the VIX is too low or spreads are too wide. While we think spreads will remain wider than normal due to a secularly decreasing liquidity environment (thanks to regulations like Basel and Dodd-Frank), spreads here look like they will soon compress more aggressively.

We believe the Pioneer Absolute Return Credit Fund is well-positioned for what we expect to be a strong first half of 2012 for “risk” assets; we have taken off the Fund’s emergency hedge and dramatically reduced its other hedges, so that the portfolio will behave more like a high-yield portfolio.

## Performance Review

Pioneer Absolute Return Credit Fund Class A shares returned 0.53% at net asset value during the fourth quarter, while the Fund’s benchmark, the Bank of America Merrill Lynch (BofA ML) U.S. Dollar 3-Month LIBOR Index (the BofA ML Index), returned 0.08%. Since the Fund’s inception on April 29, 2011, through December 31, 2011, the Fund’s Class A shares have returned –3.99% at net asset value and the BofA ML Index has returned 0.17%.

### Average Annual Total Returns (Class A shares)

December 31, 2011	(at NAV)	(at POP)	BofA ML U.S. Dollar 3-Month LIBOR Index
Since Inception (4/29/11)	-3.99%	-8.30%	0.17%

### Expense Ratio

(As of prospectus dated April 26, 2011)

Gross	1.38%
Net	1.20%

### 30-Day SEC Yield (Class A shares)

(As of December 31, 2011)

With expense waiver	6.13%
Without expense waiver	5.90%

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**The performance data quoted represents past performance, which is no guarantee of future results. Investment return and principal value will fluctuate, and shares, when redeemed, may be worth more or less than their original cost.**

**NAV results represent the percent change in net asset value per share. Returns would have been lower had sales charges been reflected. POP returns reflect deduction of the maximum 4.50% sales charge at the beginning of the period. All results are historical and assume the reinvestment of dividends and capital gains. Other share classes are available for which performance expenses will differ.**

Performance results reflect any applicable expense waivers in effect during the periods shown. Without such waivers fund performance would be lower. Waivers may not be in effect for all funds. Certain fee waivers are contractual through a specified period. Otherwise, fee waivers can be rescinded at any time. See the prospectus for more information.

**The net expense ratio reflects contractual expense limitations currently in effect through 8/1/12 for Class A shares. There can be no assurance that Pioneer will extend the expense limitations beyond such time. Please see the prospectus for more information.**

#### **A Word about Risk:**

All investments are subject to risk, including the possible loss of principal. Pioneer Absolute Return Credit (“ARC”) Fund has the ability to invest in a wide variety of debt securities.

**The Fund may invest in underlying funds** (ETFs and unit investment trusts). In addition to the Fund’s operating expenses, you will indirectly bear the operating expenses of investments in any underlying funds.

**The Fund and some of the underlying funds employ leverage**, which increases the volatility of investment returns and subjects the Fund to magnified losses if an underlying fund’s investments decline in value.

**The Fund and some of the underlying funds may use derivatives**, such as options and futures, which can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance.

**The Fund may invest in inflation-linked securities.** As inflationary expectations increase, inflation-linked securities may become more attractive, because they protect future interest payments against inflation. Conversely, as inflationary concerns decrease, inflation-linked securities will become less attractive and less valuable.

**The Fund may invest in credit default swaps**, which may in some cases be illiquid, and they increase credit risk since the Fund has exposure to both the issuer of the referenced obligation and the counterparty to the credit default swap.

**The Fund may invest in floating-rate loans.** The value of collateral, if any, securing a floating-rate loan can decline or may be insufficient to meet the issuer’s obligations or may be difficult to liquidate.

**The Fund may invest in event-linked bonds.** The return of principal and the payment of interest on event-linked bonds are contingent on the nonoccurrence of a pre-defined “trigger” event, such as a hurricane or an earthquake of a specific magnitude.

**The Fund may invest in commodities.** The value of commodity-linked derivatives may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, factors affecting a particular industry or commodity, international economic, political and regulatory developments, supply and demand, and governmental regulatory policies.

**The Fund may invest in zero coupon bonds and payment in kind securities**, which may be more speculative and fluctuate more in value than other fixed income securities. The accrual of income from these securities are payable as taxable annual dividends to shareholders.

**Investments in equity securities are subject to price fluctuation.**

**Investments in fixed-income securities involve interest rate, credit, inflation, and reinvestment risks.** As interest rates rise, the value of fixed-income securities falls.

**The Fund may invest in mortgage-backed securities**, which during times of fluctuating interest rates may increase or decrease more than other fixed-income securities. Mortgage-Backed securities are also subject to pre-payments.

**Prepayment risk is the chance that mortgage-backed bonds will be paid off early** if falling interest rates prompt homeowners to refinance their mortgages.

**High-yield bonds possess greater price volatility, illiquidity, and possibility of default.**

These risks may increase share price volatility.

The Bank of America Merrill Lynch U.S. Dollar 3-Month LIBOR Index represents the London interbank offered rate (LIBOR) with a constant 3-month average maturity. LIBOR is a composite of the rates of interest at which banks borrow from one another in the London market, and it is a widely used benchmark for short-term interest rates. Index returns are calculated monthly, assume reinvestment of dividends and, unlike Fund returns, do not reflect any fees, expenses or sales charges. It is not possible to invest directly in an index.

The views expressed in this commentary are those of the portfolio manager and are subject to change at any time. These views do not necessarily reflect the views of Pioneer or others in the Pioneer organization, and should not be relied upon as investment advice, as securities recommendations, or as an indication of trading intent on behalf of any Pioneer investment product.

**Please see the prospectus for a more complete discussion of the Fund’s risks.**

**Securities Discussed** **% of Portfolio  
as of December 31, 2011**

Nara Cable Funding, 8.875%, 12/1/18	0.76%
Canadian Government Bond, 4.00%, 6/1/41	1.43%
Novellus Systems, 2.625%, 5/15/41	0.27%
Chrysler Group, L+4.75%, 4/28/17	0.73%
Quicksilver Resources, 7.125%, 4/1/16	0.38%
Xinergy, 9.25%, 5/15/19	0.47%
James River Coal, 7.875%, 4/1/19	0.42%
NuVasive, 2.75%, 7/1/17	0.16%
State Street Capital, 8.25%, 1/29/49	0.87%

**Top 10 Holdings** **% of Portfolio  
as of December 31, 2011**

1. Canadian Government Bond, 4.00%, 6/1/41	1.43%
2. State Street Capital, 8.25%, 1/29/49	0.87%
3. Nara Cable Funding, 8.875%, 12/1/18	0.76%
4. Chrysler Group, L+4.75%, 4/28/17	0.73%
5. TAM Capital 3, 8.375%, 6/3/21	0.67%
6. CommScope, 8.25%, 1/15/19	0.58%
7. Successor X, FRN, 2/25/14	0.56%
8. Successor X, 0.00%, 1/7/14	0.56%
9. Compass, 0.00%, 1/8/15	0.55%
10. Lodestone, 0.00%, 1/8/14	0.55%

The portfolio is actively managed, and current holdings may be different. The holdings listed should not be considered recommendations to buy or sell any of the securities listed.

**Before investing, consider the Fund's investment objectives, risks, charges and expenses. Contact your advisor or Pioneer Investments for a prospectus or summary prospectus containing this information. Read it carefully.**

The investments you choose should correspond to your financial needs, goals, and risk tolerance. For assistance in determining your financial situation, please consult an investment professional.

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