Pioneer Disciplined Value SMA

Performance Analysis and Market Commentary | June 30, 2023

Investment Philosophy

We believe in a consistent, disciplined investment process based on fundamental research, quantitative analysis and active portfolio management. This three-pillared approach is supported by a management team that seeks a careful balance of risk and reward, which we apply to each of our investment portfolios.

Performance Review

	Quarter-to Date	Year-to-Date	1-Year	3-Year	5-Year	10-Year
Pioneer Disciplined Value SMA(Gross)	2.13%	4.68%	7.69%	14.94%	8.97%	9.98%
Pioneer Disciplined Value SMA (Net)	1.37%	3.12%	4.52%	11.57%	5.77%	6.75%
Russell 1000® Value Index (Benchmark)	4.07%	5.12%	11.54%	14.30%	8.11%	9.22%

Performance shown is based on the Pioneer Disciplined Value SMA composite. The percentage of composite assets represented by wrap fee portfolios for the periods shown is 0%. Due to rounding, figures may not total 100%. Gross of fee returns are presented before management and custodial fees, but after all transaction costs. Net returns are calculated by deducting the highest anticipated applicable annual wrap fee (3.00% on all assets) applied on a monthly basis from the gross composite monthly return. Gross and net returns are calculated in the same manner using the Time-Weighted Rate of Return method. The wrap fee includes all charges, transaction costs, portfolio management fees, custody fees, and other administrative fees. Actual fees and account minimums may vary. **Past performance is no guarantee of future results.**

On July 3, 2017, Amundi Asset Management acquired Pioneer Investments (the "prior firm", now Amundi US). Performance prior to July 3, 2017 occurred while members of the portfolio management team were affiliated with the prior firm. Such members of the portfolio management team were responsible for investment decisions at the prior firm and the decision-making process has remained intact.

Market Review

— The second quarter of 2023 was almost a mirror image of the first quarter, with the S&P 500 Index (SPX) returning 8.74%, as investors continued to pile into technology stocks—especially those connected with artificial intelligence (AI)—at increasingly higher valuations. The Nasdaq 100 Index had one of its best first half returns ever, posting a 39.35% return. Market breadth was exceedingly narrow with only 32% of stocks outperforming the SPX in the quarter, creating a significant headwind for valuation-disciplined active managers. Growth continued to outpace value by a wide margin in the second quarter, with the Russell 1000 Growth Index (RLG) returning 12.81% vs. 4.07% for the Russell 1000 Value Index (RLV). Within the RLG, stocks with the highest price-to-earnings (P/E) multiples performed the best—stocks with P/Es of 35.3x and higher generated nearly twice the return of the overall index.

— Though still below its peak in 2021, the SPX as of June 30 had recovered much of the losses incurred in 2022. Its performance, however, was not indicative of the average stock. The S&P 500 Equal Weight Index returned just 7.03% in the first half, compared with 16.89% for the SPX.

Growth Continues to Outpace Value

Total Return	June 2023	2Q2023
S&P 500® Index (SPX)	6.61%	8.74%
Russell 1000® Value Index (RLV)	6.64%	4.07%
Russell 1000® Growth Index (RLG)	6.84%	12.81%

Source: Morningstar. Data as of June 30, 2023. **Data is based on past performance, which is no guarantee of future results**.

Performance Review

— Pioneer Disciplined Value SMA (the SMA) returned 2.13% (gross) and 1.37% (net) in the second quarter, underperforming the 4.07% return of the RLV.

— From a style perspective, large cap value stocks—the focus of the SMA—significantly underperformed large-cap growth stocks within the broader Russell 1000 Index, continuing the trend from the first quarter. Despite the outperformance of expensive mega-cap growth stocks YTD, supported largely by investor euphoria over generative artificial intelligence (AI), we believe that a long-term structural shift from growth to value that started in November 2020 has only just begun. However, as to be expected, there will be fits and starts. As higher inflation continues, interest rates remain at 15-year highs and lending conditions tighten, we believe value stocks are poised for outperformance over growth stocks over the longer-term. Accordingly, we are staying true to our investment style where the SMA is meaningfully cheaper than many competitor offerings—as we seek relative value in the cheaper cohort of stocks within value—and provides shareholders dedicated and efficient exposure to the large cap value universe using an active, dynamic approach.

— At the sector level, the SMA's relative underperformance primarily reflects weaker security selection results in the financials, communication services and health care sectors. Sector allocation results also detracted, though to a lesser extent, from our decision to underweight the outperforming communication services sector and to overweight the underperforming energy sector. The energy sector, in our view, could continue to benefit over the long term from higher commodity prices and strong global demand. On a positive note, strong security selection in the energy sector, a modest underweight to the consumer staples sector, and a slight overweight to financials, mainly within the larger US banks where we have high conviction, boosted relative performance results.

— Among individual holdings, our decision to avoid owning benchmark constituent **Meta Platforms**, the parent company of Facebook, detracted from the SMA's relative performance as mega-cap growth stocks rallied. We have continued to avoid holding shares of Meta Platforms as the company does not fit our strict valuation and investment criteria. Within health care, the SMA's shares in pharmaceutical company **AbbVie** declined as the company's best-selling drug, Humira, lost its US patent protection. The key issue during the quarter was that the drugs expected to replace Humira over the long term, experienced weaker revenue that caused investors to fear that AbbVie would not be able to offset the loss of Humira revenue. As a result, investor confidence was reduced in the $12 per share EPS floor for the company.

— In contrast, the top relative contributors included overweight positions in energy company **EQT Corporation** and **Eli Lilly**. EQT, one of the world's largest natural gas producers, has benefitted from an increase in natural gas prices as the EIA (Energy Information Administration) predicted further increases to the price of natural gas in the coming years. Shares of Eli Lilly climbed after reporting better-than-expected sales of its new diabetes product, Mounjaro, and raised earnings guidance. The company also announced clinical trial results for a product in development that has reduced weight in adults by an industry leading 24%. In our view, Eli Lilly is one of the few pharmaceutical companies that has successfully innovated in recent years. We believe its diabetes drug can drive revenue and earnings significantly higher in the coming years.

Top Relative Contributors and Detractors – Second Quarter of 2023

Contributors	Detractors
— EQT Corporation (EQT)	— Meta Platforms (META)
— Eli Lilly (LLY)	— AbbVie (ABBV)
— Stanley Black & Decker (SWK)	— US Bancorp (USB)
— Digital Realty Trust (DLR)	— Pfizer (PFE)
— CRH (CRH)	— Truist Financial (TFC)

Securities listed represent holdings of the portfolio or benchmark components that were not held in the portfolio as of quarter-end, shown in descending in order from greatest to least, in terms of contribution to or detraction from the SMA's performance relative to the benchmark. Data is of the representative account (Gross, USD) in the Pioneer Disciplined Value SMA composite. Gross performance does not reflect the deduction of certain fees. The portfolio is actively managed and current portfolio information is subject to change. The holdings listed should not be considered recommendations to buy or sell any security.

Market Outlook and Positioning

- The economy's strength has been significantly aided by the continued drawdown of excess savings from the Covid era and other prior fiscal stimulus. However, we continue to expect economic growth to slow over the next several months due to the impact of higher interest rates.
- Financial conditions remain relatively tight. Further interest rate rises appear likely in the future as inflation remains quite sticky in certain areas. Hopes of rate cuts later in the year or early next year may prove to be premature. If the Fed does cut rates later in the year, it would be the result of greater-than-expected economic weakness, which could be detrimental to corporate earnings. The stock market tends to react negatively in such an environment.
- Margins remain quite high; though well off their peak of a year or so ago. Further contraction is likely to continue for the majority of companies, and we believe that earnings estimates for the next several quarters remain overly optimistic. A mild recession, in our view, is more likely than a "soft landing." In either scenario, earnings estimates will likely decline as companies take a more cautious approach as 2023 progresses given economic uncertainty. If the stock market adequately discounts a potential recession, we would anticipate becoming more constructive.
- Despite a very strong start to the year for equities, particularly for a narrow set of expensive mega-cap growth stocks, we remain cautious that the rebound may be little more than a bear market rally driven by the more speculative parts of the market and by the recent euphoria in generative AI.
- Against this market backdrop, we are focused on bottom-up, fundamental stock picking. We are opportunistically taking advantage of market volatility to pursue high-quality names whose valuations are meaningfully below where we believe they should be, and offer a favorable risk/reward trade-off. We continuously re-evaluate our assumptions, forecasts and the overall investment landscape to own, what we believe are some of the best long-term ideas in large cap US value as the outcome of an investment process centered on an experienced analyst team, and a consistent, repeatable analytical framework grounded in the pursuit of economic profit.
- From a positioning perspective, at the sector level, the Portfolio's three largest overweights included energy, financials and materials. Conversely, the three largest underweights included consumer staples, industrials and consumer discretionary.
- In terms of notable changes since last quarter, we have focused on adding to areas where we have had stronger conviction and are finding valuations that are more attractive. The Fund's financials exposure is down over 500 basis points (bps) largely from exiting our position in one stock. In materials, we have added 300 bps mainly in the copper and aggregates segments. In consumer staples, we reduced approximately 700 bps of exposure on valuation. In terms of health care, we have added about 100 bps, mostly in medtech, where we increasingly find more value. We have also added opportunistically to existing names in the industrials sector.

— The SMA remains significantly overweight banks that we believe it can continue to demonstrate a durability of returns through this cycle. We favor what we believe are the “structural winners”, or the US banks that have meaningfully invested in technology that should help transform their businesses, improve margins, provide a more stable earnings stream, and expand market share. In our analyses of banks, this is a critical determinant of competitive advantage. We believe now is an opportunity to take advantage of the volatility/valuation support in the banking space and increase allocations to what we believe are the structural winners.

— In energy, we own a mix of attractively valued equipment & services and integrated oil & gas companies. In addition to the current supply/demand headwinds, we believe that the sector is on a longer-term path forward after companies have changed their manager incentive programs to reflect return on invested capital and are not spending on growth in production after years of underspending on new projects.

— The Portfolio is underweight communication services for valuation purposes; moreover, it does not own telecom because we believe they have deteriorating business models with high leverage that are not discounted enough for the risks. We would also note that we do not own the big internet & media names such as Alphabet, Meta Platforms and Netflix, which, collectively, account for approximately 4% of the index. While not owning these three stocks have been a meaningful headwind to relative performance YTD, we do not consider these companies to be true value stocks and therefore, they do not fit our investment criteria for inclusion in the Portfolio. Furthermore, they left the benchmark in late June due to the annual Russell rebalance.

— We are also underweight the consumer as we are generally not finding much relative value here within the value space. Lastly, we are avoiding insurance on valuation and underweight real estate due to the risks of higher interest rates on borrowing and stresses from recession and commercial real estate risks. In real estate, we own several REIT securities.

Additional Information

Performance Attribution: This performance attribution seeks to identify and quantify the drivers of portfolio performance relative to that of its benchmark. Using FactSet software, we create hypothetical subportfolios by segmenting the portfolio and its benchmark, then measure the value (weight) and returns of those hypothetical subportfolios. This lets us measure the performance impact of a decision to overweight or underweight a portfolio segment. It also lets us measure the performance impact of a specific security selection within each segment.

Terms and Definitions

The **Russell 1000® Growth Index** measures the performance of the large-capitalization growth sector of the US equity market. The **Russell 1000® Value Index** measure the performance of the large-capitalization value sectors of the US equity market. The **S&P 500® Index** measures the performance of the broad US stock market. Indices are unmanaged and their returns assume reinvestment of dividends and do not reflect any fees or expenses. It is not possible to invest directly in an index.

A Word About Risk

The market prices of securities may go up or down, sometimes rapidly or unpredictably, due to general market conditions, such as real or perceived adverse economic, political, or regulatory conditions, recessions, inflation, changes in interest or currency rates, lack of liquidity in the bond markets, the spread of infectious illness or other public health issues or adverse investor sentiment. **The portfolio may invest** in fewer than 40 securities and, as a result, its performance may be more volatile than the performance of other portfolios holding more securities. **Investing in small- and mid-sized companies** may offer the potential for higher returns, but are also subject to greater short-term price fluctuations than larger, more established companies. **Investing in foreign and/or emerging markets securities** involves risks relating to interest rates, currency exchange rates, economic, and political conditions.

Important Information

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