COMMENTARY

Pioneer Strategic Income Fund

Performance Analysis & Commentary | September 2017

Fund Ticker Symbols: **PSRAX** (Class A); **STRYX** (Class Y) **amundipioneer.com**

Third Quarter Review

- The Fund's Class A shares returned 1.08% at net asset value in the third quarter, and Class Y shares returned 1.16%, while the Fund's benchmark, the Bloomberg Barclays US Universal Index, returned 1.01%.
- The Fund's performance benefited from the lower relative credit quality of its holdings during the third quarter, as well as from security selection results, particularly within the energy sector and the emerging markets.
- We have become more constructive regarding both US and global gross domestic product (GDP) growth. Within the US, we believe solid employment figures may continue to support consumption and the housing market, while the economy may also continue to benefit from higher corporate profits, which reflect improved global economic growth, easy financial conditions, and lower regulatory burdens.

Robust, synchronized global economic growth and rising corporate profits, amid broadly supportive central bank policies drove strong performance in both the credit and equity markets in the third quarter. Meanwhile, government bond yields ended the quarter modestly higher than they were on June 30, 2017.

In the US, continued strong employment numbers and higher consumer confidence, together with easy financial conditions, solid global growth, and a depreciating US dollar (USD) contributed to better-than-expected GDP growth of 3.1% in the second quarter. In the euro zone, China, and Japan, economic growth in the second quarter also surprised to the upside, with China's strong growth and demand for commodities being instrumental in supporting growth in the emerging markets. Despite higher oil and commodities prices, inflation continued to moderate, both in the US and globally, enabling major non-US central banks to maintain their easy monetary policies. As expected, the Federal Open Market Committee (FOMC) announced that it would commence tapering its balance sheet this October. The markets were surprised, however, that the FOMC held firm on its plan for a gradual increase in the Federal funds rate, in spite of the "mystery", in Federal Reserve (Fed) Chair Yellen's words, of below-target inflation levels.

The 10-year US Treasury yield rose from 2.30% to 2.33% over the quarter, while the 10-year breakeven, which reflects inflation expectations implied in the prices of TIPS (Treasury Inflation-Protected Securities), rose from 1.74% to 1.85%. Prices of 10-year Treasury bonds rallied into early September, on lower inflation and increased geopolitical risk. After bottoming at 2.06%, yields rose dramatically over the rest of the month in response to the FOMC's commitment to raise rates, higher inflation expectations driven by strong GDP growth, recovering oil prices, the potential for tax reform legislation in Washington, and expectations of tighter global monetary policies.

Agency mortgage-backed securities (MBS) delivered strong excess returns of 0.47% for the third quarter, which mainly reflected a September rally, during which the sector benefited from rising yields, the prospect for relative rate stability going forward, and the FOMC's well-broadcast tapering announcement. (Excess returns represent investment performance generated by a security or portfolio that exceed the "riskless" performance of a security generally perceived by the market to be risk-free, such as a certificate of deposit or a government-issued bond.) Non-agency MBS and commercial MBS (CMBS) also outperformed Treasuries this quarter, although CMBS underperformed residential MBS, due to concerns over the potential impact on commercial real estate by the hurricanes that hit Texas and Florida, and over higher new issuance. Investment-grade and high-yield corporates gained most or all of their excess returns this quarter in the more positive September market environment, as investor concerns about geopolitical risk and the heavy new issuance dissipated, and oil prices rose. With respect to floating-rate sectors, bank loans underperformed high-yield securities, returning 1.02%, compared with high yield's return of 2.04%. Insurance-linked "catastrophe" bonds suffered a 5.00% loss over the quarter, reflecting a 6.30% loss sustained in late August and September as three consecutive hurricanes made landfall in the US.

Emerging markets were the big winners in the third quarter, with both sovereigns and corporates returning better than 2%, as each benefited from strong Chinese growth and strong domestic demand. Unlike other credit sectors, the emerging markets did not post significant returns in September, as sovereigns were down by 0.10%, and corporates gained just 0.30%.

The broad USD Index fell by a net 2% over the third quarter, reflecting the USD's decline until early in September, when it began to appreciate in response to the FOMC's unchanged rate projections, which included a December rate increase, and to the upwardly revised second quarter US GDP growth numbers.

Sector Allocation and Security Selection

The Fund's performance benefited from the lower relative credit quality of its holdings during the third quarter, as well as from security selection results, particularly within the energy sector and the emerging markets.

The Fund's relative returns benefited from the lower credit quality of the portfolio's holdings within industrials, financials, asset-backed securities (ABS), and agencies, the last of which reflects emerging markets exposure. BBBs and high-yield issues outperformed over the quarter.

With regard to security selection, the Fund's performance benefited from results within industrials and the emerging markets. In particular, select energy credits in the portfolio outperformed in the third quarter, as did holdings of emerging markets sovereigns.

Finally, the Fund's currency exposures contributed modestly to relative performance this quarter, particularly the portfolio's proxy hedge, which was long on Norway/Sweden and short on the euro.

As for detractors, the Fund's short-duration positioning of –1.28% versus the Bloomberg Barclays US Universal Index hurt benchmark-relative performance, due to the negative carry associated with the position. (Duration is a measure of the sensitivity of the price, or the value of principal, of a fixed-income investment to a change in interest rates, expressed as a number of years.) That negative was mitigated in part by the benefits of the Fund's barbelled yield-curve position.

In addition, while overall sector allocation results were essentially neutral to benchmark-relative performance in the third quarter, the benefits of the Fund's 31% underweight to nominal US Treasuries were offset by the underperformance of the portfolio's 3% allocation to catastrophe bonds.

Current Outlook and Positioning

We have become more constructive regarding both US and global GDP growth. Within the US, we believe solid employment figures may continue to support consumption and the housing market, while the economy may also continue to benefit from higher corporate profits, which reflect improved global economic growth, easy financial conditions, and lower regulatory burdens. We believe the proposed tax reform plan currently under discussion in Washington, if passed, may further bolster corporate profits as well as the economy in 2018.

While the market has now priced in higher expectations for a December 2017 interest-rate increase by the Federal Reserve (the Fed), it has also priced in a 1.66% Federal funds rate by the end of 2018, which is well below the median level of the FOMC's projection of 2.13%. We believe the market continues to be "behind the curve" in its views on the appropriate level of interest rates. Despite the Fed's concern about relatively low inflation, we believe it will proceed with its planned rate increases.

Although the USD appreciated in September, we believe it will depreciate over the longer term as yield differentials between the US and developed markets narrow. Improving global economic growth may drive more central banks, including the European Central Bank (ECB), to consider withdrawal from their quantitative easing policies. In addition, President Trump's preference for a lower USD, combined with the three openings on the FOMC, including the Chair position in 2018, and the potential for more expensive trade could put a brake on USD appreciation.

We continue to position the portfolio for rising interest rates and a solid economy. We have modestly reduced the Fund's short-duration position relative to the benchmark, as yields have risen in expectation of more interest-rate hikes and higher inflation. We have moderated our views regarding the relative value between agency MBS and investment-grade corporates, based on the outperformance of agency MBS over the past month; right now, we slightly favor investment-grade corporates, but on a highly selective basis.

The Fund is currently overweight to various credit sectors and underweight to US Treasuries. We find most US government debt unattractive, while we believe the credit sectors may benefit from stronger economic growth, lower taxes – if tax reform becomes a reality – and less regulation. The portfolio continues to hold a short-duration position (–1.24 years) compared to the Fund's benchmark, the Bloomberg Barclays US Universal Index. As noted earlier, we believe the market may be behind the curve, given solid GDP growth, little slack in the labor market, and average projected inflation of 1.5% to 2% over the rest of the year.

We hold long-duration TIPS in the portfolio, and believe the recent decline in break-evens does not accurately reflect the longer-term potential for 2% inflation rates. The Fund holds a near-neutral weight in agency MBS relative to its benchmark; however, including the heavy exposure to non-agency MBS, the Fund remains significantly overweight to residential MBS (RMBS). The Fund is overweight to RMBS because we believe that the MBS asset class offers attractive value, as fundamentals for the housing sector remain strong, given improving employment data, the recent decline in longer-term rates, and attractive home-price affordability.

The portfolio remains underweight to investment-grade corporates, but continues to hold an overweight to high-yield corporates. Tighter spreads and higher leverage are counterbalanced by strong fundamentals. (Credit spreads are commonly defined as the differences in yield between Treasuries and other types of fixed-income securities with similar maturities.) Within corporates, the Fund is overweight to financials. We also have increased exposure to European banks while reducing the Fund's US bank exposure, based on the more attractive relative value of European banks as well as the positive GDP growth outlook in the euro zone. More generally, we believe the banking and insurance sectors offer attractive relative value. While spreads are modestly lower than the broad corporate benchmarks, we believe financials offer lower event-risk of share repurchases, or credit impairment due to merger-and-acquisition activity. Banks are currently focused on improving capital ratios to meet regulatory requirements, and we think they should also benefit from rising global yields and steepening yield curves.

The Fund remains overweight to the energy midstream sub-sector, a sector that shows relatively less sensitivity to oil-price volatility. We expect continued spread tightening in the space, which remains one of the wider-trading sub-sectors within investment grade. While OPEC's (Organization of Petroleum Exporting Companies) extension of production cuts should help offset increased production from US shale producers, we are watching the supply/demand balance carefully.

We believe that the USD could depreciate modestly in 2017 and 2018, and we are seeking to add select emerging markets currency exposures to the Fund. The portfolio already includes certain emerging markets exposures, with a preference for investments in countries that are undertaking important structural reforms, such as India, Indonesia, and Argentina.

Performance Review

Pioneer Strategic Income Fund's Class A shares returned 1.08% at net asset value in the third quarter, and Class Y shares returned 1.16%, while the Fund's benchmark, the Bloomberg Barclays US Universal Index, returned 1.01%.

Average Annual Total Return (Class A shares)

September 30, 2017	(at NAV)	(at POP)	Bloomberg Barclays US Universal Index
1 year	3.90%	–0.80%	0.96%
3 years	3.34%	1.76%	3.11%
5 years	3.68%	2.72%	2.53%
10 years	5.91%	5.43%	4.56%

Average Annual Total Return (Class Y shares)

September 30, 2017	(at NAV)	Bloomberg Barclays US Universal Index
1 year	4.23%	0.96%
3 years	3.69%	3.11%
5 years	3.98%	2.53%
10 years	6.27%	4.56%

Expense Ratios (As of prospectus dated April 1, 2017)

Class A shares: Gross, 1.04%

Class Y shares: Gross, 0.73%

Call 1-800-225-6292 or visit amundipioneer.com for the most recent month-end performance results. Current performance may be lower or higher than the performance data quoted.

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.

The NAV results represent the percent change in net asset value per share. Returns would have been lower had sales charges been reflected. The POP performance data reflects 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 and expenses will differ.

Class Y shares are not subject to sales charges and are available for limited groups of eligible investors, including institutional investors.

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.

A Word about Risk:

Investments in high-yield or lower-rated securities are subject to greater-than-average price volatility, illiquidity and possibility of default.

When interest rates rise, the prices of fixed-income securities in the Fund will generally fall. Conversely, when interest rates fall, the prices of fixed-income securities in the Fund will generally rise.

Investments in the Fund are subject to possible loss due to the financial failure of issuers of underlying securities and their inability to meet their debt obligations.

Prepayment risk is the chance that an issuer may exercise its right to prepay its security, if falling interest rates prompt the issuer to do so. Forced to reinvest the unanticipated proceeds at lower interest rates, the Fund would experience a decline in income and lose the opportunity for additional price appreciation.

The securities issued by US government-sponsored entities (e.g., FNMA, Freddie Mac) are neither guaranteed nor issued by the US government.

The portfolio 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 prepayments.

Investing in foreign and/or emerging markets securities involves risks relating to interest rates, currency exchange rates, economic, and political conditions.

At times, the Fund's investments may represent industries or industry sectors that are interrelated or have common risks, making it more susceptible to any economic, political, or regulatory developments or other risks affecting those industries and sectors.

These risks may increase share price volatility.

The Bloomberg Barclays US Universal Index is unmanaged, and represents the union of the USAggregate Index, the US High Yield Corporate Index, the 144A Index, the Eurodollar Index, the Emerging Markets Index, the non-ERISA portion of the CMBS Index, and the CMBS High Yield Index. Municipal debt, private placements and non-dollar-denominated issues are excluded. Index returns are calculated monthly, assume reinvestment of dividends and, unlike mutual fund returns, do not reflect any fees or expenses associated with a mutual fund. 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 Amundi Pioneer or others in the Amundi 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 Amundi Pioneer investment product.

Top 10 Holdings

		% of Portfolio as of September 30, 2017
1.	US Treasury Inflation Indexed Bonds, 0.75%, 2/15/45	1.98%
2.	US Treasury Inflation Indexed Bonds, 1.00%, 2/15/46	1.11%
3.	US Treasury Bill, 0.00%, 10/5/17	0.81%
4.	International Bank for Reconstruction & Development, 3.50%, 1/22/21	0.71%
5.	Wells Fargo & Co., 7.50%, 12/31/49 (Perpetual)	0.70%
6.	New Zealand Government Bond, 5.50%, 4/15/23	0.65%
7.	Bank of America, 7.25%, 12/31/49 (Perpetual)	0.52%
8.	International Finance Corp., 6.30%, 11/25/24	0.52%
9.	Fannie Mae, 5.00%, 11/1/44	0.46%
10.	Electricite de France SA, 6.00%, 1/22/14 (144A)	0.44%

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

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

Neither Amundi Pioneer, nor its representatives are legal or tax advisors. In addition, Amundi Pioneer does not provide advice or recommendations. The investments you choose should correspond to your needs, goals, and risk tolerance. For assistance in determining your financial situation, please consult an investment professional.

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