COMMENTARY

Pioneer ILS Interval Fund

Performance Analysis & Commentary | March 2016

Fund Ticker Symbol: **XILSX**

us.pioneerinvestments.com

First Quarter Review

- The Fund returned 1.35%, net of fees, in the first quarter, compared with a return of 1.18% for the Swiss Re Global Cat Bond Index*.
- Loss events were minimal in the portfolio during the first quarter of 2016, due to a benign winter and low number of events.
- The hurricane season that traditionally begins each June is the largest risk to the reinsurance industry and ILS market, and researchers are suggesting the upcoming season could be more active than last year.

Insurance-linked security (ILS) issuance during the first quarter of the year was strong, as more than $2.2 billion worth of deals came to market. ILS issuance was diversified across a variety of perils this quarter (storm, typhoon, earthquake, hurricane, and medical benefit claims), and across geographies. Easy monetary policy from global central banks has muted yields in more conservative asset classes, causing investors to seek out alternative sources of return. This atmosphere has been supportive of the growing demand for ILS investments, and we have observed increased interest from investors into ILS.

We continue to see evidence of price stabilization in the market. As shown below, compared with 12 months ago, new issuance in the catastrophe bond market for securities with similar risk profiles and the same sponsor offered higher coupons.

Security Description	Issuance Date	Peril	Expected Loss	Spread (bps)**
Vitality Re VII A	1/28/2016	Health	0.01	215
Vitality Re VII B	1/28/2016	Health	0.18	265
Vitality Re VI A	1/27/2015	Health	0.01	175
Vitality Re VI B	1/27/2015	Health	0.24	210
Atlas IX 2016-1	1/12/2016	US W, Q, CAN Q	3.00	750
Atlas IX 2015-1	2/10/2015	US W, Q, CAN Q	3.43	700

* The **Swiss Re Global Cat Bond Index** tracks the aggregate performance of all USD, EUR and JPY denominated cat bonds, capturing all ratings, perils and triggers. The index seeks to hedge out the EUR and JPY currency risk at the inception of the bonds. However, the index does not reflect the full ILS market because it does not include private market securities (e.g., quota shares, collateralized reinsurance, and ILW). Furthermore, cat bonds also have a higher concentration to peak zone risks (U.S. hurricane/earthquakes) than what is typically included in a Pioneer Investments ILS Interval portfolio.

** Source Bloomberg 3/31/2016; spread represents the increase in coupon rate from previous issues; a bp, or basis point, is equal to 0.01%.

Fund Performance

The Pioneer ILS Interval Fund (Fund) returned 1.35%, net of fees, during the first quarter of 2016, compared with a return of 1.18% for the Swiss Re Global Cat Bond Index (the Swiss Re Index). Over the past 12 months through March 31, 2016, the Fund returned 9.88% and the Swiss Re Index returned 4.80%. Loss events were minimal in the portfolio during the first quarter of 2016, due to a benign winter and low number of events.

REGION AND PERIL DETAIL as of March 31, 2016

Peril	Region	Risk Allocation (%)
Wind	US Hurricane Southeast (FL, GA, SC, and NC)	19.9
	US Hurricane Gulf (LA, TX, MS, and AL)	8.9
	US Hurricane Northeast US (VA and north)	10.1
	Japan Typhoon	5.0
	Australia Cyclone	3.8
	Other (HI, Caribbean, Mexico, Southeast Asia, etc.)	2.5
Earthquake	US California	6.2
	US Northwest	1.8
	US Other (Northeast, Central, and Puerto Rico)	2.2
	Canada	0.7
	Australia and New Zealand	3.6
	Europe	1.8
	Latin America	2.6
	Japan	3.3
	Other	0.5
Winter Storm	Europe	12.0
	US and Canada	1.0
Flood	Europe	1.1
	Canada	0.1
	Other	0.3
Tornado	US	2.3
	AU	0.5
Other	Natural Perils in Other Regions	5.1
	Other Peril (Marine, Aviation, Crop, etc.)	4.8
Total		**100**

The Fund is actively managed, and region and peril detail are subject to change.

Outlook for 2016 US Hurricane Season and ILS Fracking Comment***

The hurricane season that traditionally begins each June is the largest risk to the reinsurance industry and ILS market, and researchers are suggesting the upcoming season could be more active than last year.

Several conditions are contributing to the potential for 2016 to have increased risk of US hurricane landfall. The higher probability of storm activity stems from, among other factors, the expected transition of *El Nino* into *La Nina* as well as warmer sea surface temperatures than last year in both the Gulf of Mexico and western Atlantic Ocean. However, an unfavorable situation in the eastern Atlantic could prevent 2016 from being a particularly active hurricane year. Other weather models also predict higher rainfall through summer and autumn, which could further encourage increased storm formation compared to 2015.

Forecasts by Tropical Storm Risk for the US hurricane season suggest 2016 may produce 12 named storms, including six hurricanes, two of which could be major. **It should be noted that while these forecasts represent a numerical increase, on an accumulated cyclone energy (ACE) basis, they are still 20% below the long-term average and 15% below the recent 2006-2015 average.** As researchers study these forecasts, the models based on an ACE basis indicate there is a 25% probability that the 2016 Atlantic hurricane season will be above average, a 35% likelihood it will be average, and a 40% chance it will be below average.

*** Sources: Weatherbell analytics, Artemis, Tropical Storm Risks, AIR Worldwide.

For the reinsurance industry and ILS market, the number of major hurricanes and the probability of landfall are the most important considerations. The path of a hurricane and the location of landfall are highly random and non-predictable. Despite the slightly increased probability of hurricane activities this year, the expected loss contribution from hurricanes in the portfolio may remain similar to last year's experience. As a reminder, Hurricane Andrew in 1992 – one of the costlier hurricanes in US history – happened during a very strong *El Nino* year, where the probability of hurricanes was low. However, Hurricane Andrew just hit the "right" locations, like the densely populated Greater Miami area.

ILS Fracking Comment

Many recent news articles have focused on the potential increased earthquake risk associated with fracking activity. An article by catastrophe modeling firm AIR Worldwide discusses this issue and the implications for investors in ILS securities. From 1967 to 2000, there were approximately 21 earthquakes in the central and eastern US with a magnitude of 3.0 or greater. From 2000 to 2013, however, the number of earthquakes of similar magnitude increased to about 100.

Data has suggested fracking and the increased fluid pressure associated with this process may cause earthquakes. Three 2011 earthquakes in Oklahoma now appear connected to an increase in pore pressure that altered the state of friction in the earth. In April of 2015, the Oklahoma Geological Survey announced that it considered the majority of recent earthquakes in the affected areas of the central and north-central portion of the state to have been triggered by the "injection of produced water in disposal wells."

This possible relationship between fracking and earthquakes raises questions about the potential strength and frequency of induced earthquakes. A recent report from the US Geological Survey acknowledges the difficulty in assessing the seismicity rates and frequency that can arise from fracking activities. The uncertainty stems from the lack of clear understanding of the relationship between the cause of earthquakes and fluid injection/changes in pore pressure.

AIR Worldwide acknowledges the difficulty in predicting earthquake activity, but states that scenario studies can be completed in the AIR stochastic catalog utilizing simulated earthquake events as large as 6.7 in magnitude for the geographic regions in question. The scenario analysis helps in formulating a long-term earthquake hazard map that can be utilized to assess risk for associated insurance-linked securities.

Other factors worth noting are that induced earthquakes tend to be lower in magnitude and are often located in more remote geographies. Both of those dynamics would tend to have favorable implications for ILS investors, as these types of occurrences are less severe and insured losses are lower.

Pioneer ILS Fund Business Update****

During the past quarter, we continued to see significant interest within the ILS area, and, specifically, in Pioneer ILS Interval Fund, as the Fund's assets grew by approximately 19% during the first quarter of 2016. The next repurchase and subscription dates to be aware of are:

- **April 15, 2016:** *Notice of Repurchase Offer* will be Mailed
- **May 10, 2016:** Deadline for Repurchase Requests
- **May 16, 2016, to May 19, 2016:** Subscription Period Open – Trade Date with NAV
- **May 20, 2016:** Repurchase Trade Date

**** There are four windows of time per year when shareholders will be able to repurchase/trade within the Fund.

Average Annual Total Returns

March 31, 2016	**(at NAV)**
1 year	9.88%
Since Inception (12/17/2014)	8.70%

Expense Ratio (As of prospectus dated February 10, 2016)

Gross, 2.60%

Call 1-844-391-3034 or visit us.pioneerinvestments.com for the most recent month-end performance results. Current performance may be lower or higher than the performance data quoted.

Performance data shown represents past performance. Past performance is no guarantee of future results. Investment return and market price 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. Performance, including short-term performance, is not indicative of future results. All results are historical and assume the reinvestment of dividends and capital gains.

The Fund has no sales charge.

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 and financial statements for more information.

A Word about Risk:

Certain fees and expenses are associated with an investment in Pioneer ILS Interval Fund.

Please see a prospectus for a complete discussion of the Fund's risks. The Fund is a non-diversified, closed-end management investment company designed primarily as a long-term investment. The Fund is not a complete investment program. **The Fund invests primarily in insurance-linked securities ("ILS"),** which are high yield debt securities that involve a high degree of risk. **The Fund is operated as an interval fund**, meaning the Fund will seek to conduct quarterly repurchase offers for a percentage of the Fund's outstanding shares. Although the Fund will make quarterly repurchase offers, **the Fund's shares should be considered illiquid. Insurance-linked securities may include event-linked bonds (also known as insurance-linked bonds or catastrophe bonds).** The return of principal and the payment of interest on event-linked bonds are contingent on the non-occurrence of a predefined "trigger" event that leads to physical or economic loss, such as a hurricane or an aerospace catastrophe. **Event-linked bonds may expose the Fund to other risks**, including, but not limited to, issuer (credit) default, adverse regulatory or jurisdictional interpretations and adverse tax consequences. **The Fund may also invest in structured reinsurance investments** or similar instruments structured to comprise a portion of a reinsurer's catastrophe-oriented business (known as "quota share" instruments or "reinsurance sidecars"). Investors participate in the premiums and losses associated with these underlying contracts, into which the Fund has limited transparency. **The size of the ILS market may change over time, which may limit the availability** of ILS for investment. The availability of ILS in the secondary market may also be limited. **Certain securities, including ILS, structured reinsurance investments and derivatives, may be impossible or difficult to purchase, sell, or unwind.** Such securities and derivatives also may be difficult to value. **The values of Fund holdings may go up or down**, due to market conditions, inflation, changes in interest or currency rates and lack of liquidity in the bond market. **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 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 Fund may invest in floating rate loans and similar instruments which may be illiquid or less liquid** than other investments. The value of any collateral can decline or be insufficient to meet the issuer's obligations. The securities issued by U.S. Government-sponsored entities (e.g., FNMA, Freddie Mac) are neither guaranteed nor issued by the U.S. Government. **The Fund may use derivatives**, such as swaps, inverse floating rate obligations and others, which can be illiquid, may disproportionately increase losses, and have a potentially large impact on the Fund's performance. Derivatives may have a leveraging effect. **Investing in foreign and/or emerging market securities involves risks** relating to interest rates, currency exchange rates, and economic and political conditions. These risks may increase share price volatility. There is no assurance that these and other strategies used by the Fund will be successful.

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

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.