

# Pioneer Equity Income Fund

Performance Analysis and Commentary

June 2010

## Second Quarter Review

- The Fund's Class A shares returned  $-7.00\%$  at net asset value in the second quarter; it was a negative quarter, but the Fund's return was considerably better than the  $-11.15\%$  return for the Fund's benchmark, the Russell 1000 Value Index.
- Security selection added value to the Fund's relative performance in virtually every market sector in the quarter, while sector weighting decisions were modestly beneficial.
- We view the recent market decline as a temporary correction, not sharing the concern that the economy is entering a double-dip recession.

The stock market posted a solid gain in April, then began a decline which ended with the broad-market Standard and Poor's 500 Index (the S&P 500) returning  $-11.4\%$  for the quarter and  $-6.7\%$  year-to-date through June 30, 2010. The U.S. dollar rallied and Treasury bond yields fell as investors engaged in a classic "flight to safety."

The Russell 1000 Value Index (the Russell Index), the Fund's benchmark, performed in line with the S&P 500, returning  $-11.1\%$  for the quarter and  $-5.1\%$  year-to-date.

The economically sensitive sectors which were favored by investors in the first quarter were generally worst-hit in the second, while the more defensive sectors which had lagged in the first quarter held up better in the market decline. The Russell Index's weakest sectors were Materials ( $-15\%$ ), Industrials ( $-14\%$ ), and Financials ( $-13\%$ ); Utilities ( $-3\%$ ), Telecom Services ( $-5\%$ ) and Consumer Staples ( $-7\%$ ) were its strongest.

## Sector Allocation and Security Selection

Our investment disciplines were rewarded in the second quarter as security selection added relative value to the Fund in eight of 10 market sectors; there were no sectors where security selection or sector weighting decisions detracted materially from the Fund's performance.

Both security selection and sector weighting decisions contributed to the Fund's above-benchmark returns, with the largest contributions coming from security selection in the Materials, Industrials, and Consumer Staples sectors.

While the Fund's overweight of the Materials sector was a modest drag on returns in the quarter, and while our emphasis on mining companies was a drag on returns within the sector, the Fund's mining names significantly outperformed the Russell Index group. The Fund also enjoyed strong security selection results in the chemicals industry, highlighted by a positive return from specialty paint maker Valspar.

Industrial pump maker Gorman-Rupp, an exceptional performer in the second half of 2009, was one of the largest detractors from the Fund's first quarter returns. We attributed the stock's weakness to normal market volatility and profit-taking, and held on to the Fund's position. This decision was vindicated in the second quarter, as the stock posted a near-breakeven return in an otherwise weak sector. Similarly, not owning General Electric (GE) was a drag on the Fund's first quarter returns (when it was up by  $21\%$ ) but was a positive in the second quarter, as GE was down by  $20\%$  for the latest three-month period.

Fund returns in the Consumer Staples sector were boosted by our emphasis on food companies and by strong returns within that group. Chocolate maker Hershey, which had gained more than  $20\%$  in the first quarter, rose by another  $12\%$  in the second. There is no longer takeover speculation on the stock, but a rationalization of manufacturing, some relief from input commodity price inflation, and solid execution are producing good results.

In the Financials sector, the Fund's emphasis on conservatively managed companies which are not dependent on the government or in the crosshairs of the legislation being debated in Congress has tended to produce strong relative performance when risk aversion rises, and weak relative performance when investors gravitate to riskier names. That pattern held true again in the second quarter, as money center banks and "Wall Street" firms (where the Fund is very underweight) lagged, while conservative firms like property/casualty insurer Chubb (down by only  $3\%$  in the quarter) outperformed.

Microchip Technology and Analog Devices, which are less cyclically sensitive than most of their peers in the semiconductor business, posted near-breakeven returns in the second quarter as investors nervous about second-half demand sold off more cyclical names.

The Fund has been overweight the Utilities sector and underweight in Energy for some time, reflecting our preference for natural gas over crude oil (several gas-oriented companies are in the Utilities sector) and the high and secure dividends generally offered in the Utilities sector. Both the Fund's weighting and security selection strategies added value again in the second quarter. In Energy, the integrated energy companies owned by the portfolio—notably Marathon and ConocoPhillips—outperformed their peers, and the Fund's underweight of energy service stocks also helped. In Utilities, overweighting gas-focused companies in the sector drove the Fund's outperformance.

## Trading Activity

In relatively active second quarter trading, seven new names were added to the portfolio while five were eliminated.

We sold McDonald's, Caterpillar, and Deere based on valuations: fundamentals are fine, but we saw more attractive opportunities elsewhere.

In the Utilities sector, we eliminated positions in electric utilities PPL and FirstEnergy—in each case largely because we disagreed with management's acquisition strategy—while investing in electric utility DPL and diversified utility Wisconsin Energy, each of which looks attractive relative to their peers.

In the Consumer Staples sector, we initiated positions in drugstore chain Walgreen and food products company Sara Lee. Walgreen's stock had become quite inexpensive as a result of its very public fight with CVS over filling Maintenance Choice prescriptions. Sara Lee is emerging from management turnover and strategic restructuring a more focused company and was trading at an attractive valuation.

In the Energy sector, we initiated positions in energy services company Helmerich & Payne, which focuses on on-shore instead of offshore markets and offers the high-performance drill rigs most in demand by explorers of nonconventional shale gas.

In the Health Care sector, we initiated a position in pharmaceuticals company Pfizer. The stock is very cheap, sports a high dividend which is more than covered by free cash flow, a clean balance sheet and, with the acquisition of Wyeth, a solution to its "patent cliff" problem.

In the Information Technology sector, we initiated a position in payroll processing firm Automatic Data Processing (ADP). ADP stands to benefit from job growth (higher volumes) and higher interest rates (ADP earns interest on the considerable "float" in the payroll business) and also offers a relatively attractive dividend yield.

## Current Outlook and Positioning

Despite current "macro" concerns, which now seem to center on European sovereign debt and the slow pace of job creation in the U.S., we remain generally optimistic about the U.S. economy, seeing a solid, if not rapid, economic recovery developing. Company managements remain generally upbeat about evolving business conditions, though most are reluctant to make bold predictions about the future.

Three months ago, we said that we would not be surprised if the market corrected at some point, but thought we could see further gains over the next year. The correction has come somewhat sooner and been somewhat steeper than we thought but, as most stocks have sold off in response to "macro" news events rather than fundamental, earnings-related issues, we are inclined to see buying opportunities, not reasons to sell.

While macro events can weigh on companies and markets, it has been our observation over many years that well-managed companies can usually find "ways to cope" (that is, strategies for success even in trying times). As always, we are focusing on investing the Fund's assets in successful and financially strong companies with managements that are astute, honest, forward-looking, adaptable, and shareholder-oriented. We believe that current prices represent good entry points for long-term investors, despite (or perhaps because of) widespread investor anxiety.

While we do not share in the generally rising level of fear over economic uncertainty, we do think that continued uncertainty and concerns over the effects of new regulations and legislation will incline investors toward firms with more predictable earnings streams and dividends.

We continue to favor companies with strong balance sheets and free cash flow sufficient to fund capital expenditures without borrowing.

Finally, we still like companies with an international focus which are positioned to grow worldwide and are competitive with the best in their industry. Relative to the Russell 1000 Value Index, the Fund remains significantly underweight to Financials, where we continue to avoid money center banks and emphasize companies which can stand on their own. The portfolio remains overweighted in Consumer Staples, emphasizing food and household products companies, and in Industrials and Materials, emphasizing railroads, machinery, and mining companies that can benefit from a strengthening economy. As noted previously, the Fund is also overweight Utilities and underweight Energy, expressing our belief that natural gas is more attractive than oil; the portfolio owns several gas utilities which are large natural gas producers.

## Performance Review

Pioneer Equity Income Fund Class A shares returned  $-7.00\%$  at net asset value in the second quarter, compared with a return of  $-11.15\%$  for the Fund's benchmark, the Russell 1000 Value Index.

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

June 30, 2010	(at NAV)	(at POP)
1 year	17.72%	10.94%
3 years	-10.85%	-12.59%
5 years	-0.59%	-1.76%
10 years	2.38%	1.77%

### Expense Ratio

(As of prospectus dated March 1, 2010)

Gross	1.23%
Net	1.23%

Call 1-800-225-6292 or visit [www.pioneerinvestments.com](http://www.pioneerinvestments.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. 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 5.75% 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. 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:

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.

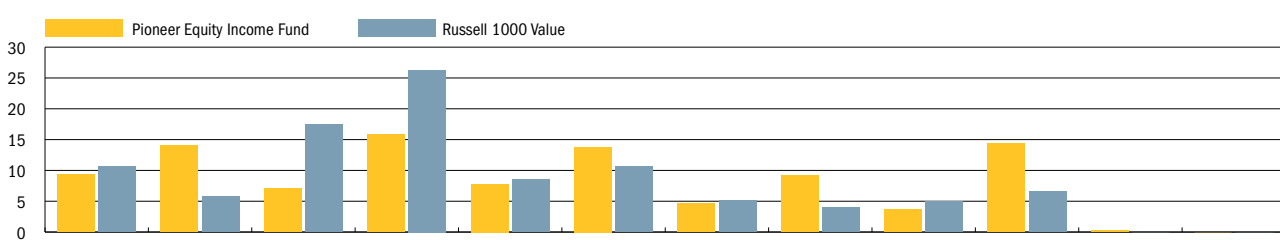
The Russell 1000 Value Index measures the performance of large-cap U.S. value stocks. Index returns are calculated monthly, assume reinvestment of dividends and, unlike Fund returns, do not reflect any fees, expenses or sales charges. You cannot invest directly in any index.

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.

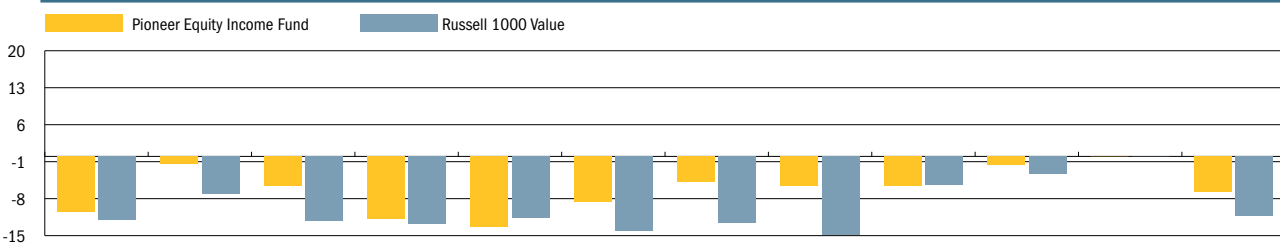
The Fund performance attribution information shown below does not reflect the deduction of fees, charges and expenses associated with investing in the Fund, such as sales charges, management fees, distribution and service (12b-1) fees, or any other fees associated with the Fund. Such expenses would reduce the overall returns shown.

Please refer to the average annual total returns table for performance that reflects the deduction of these fees and charges.

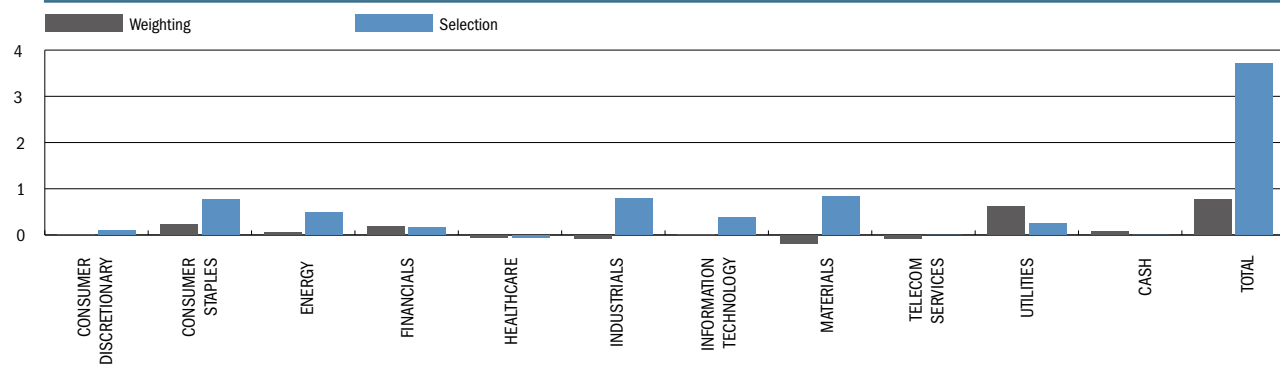
**Chart 1- Average Weight**



**Chart 2- Return**



**Chart 3- Performance Attribution**



Please see the last page for more background information about Performance Attribution. The portfolio is actively managed, and current holdings may be different.

Actual portfolios have fees and expenses. Our performance attributions ignore fees and expenses. The hypothetical portfolios used in performance attribution are before fees and costs.

<b>Securities Discussed</b>	<b>% of Portfolio as of June 30, 2010</b>	<b>Top 10 Holdings</b>	<b>% of Portfolio as of June 30, 2010</b>
Automatic Data Processing	0.48%	1. Questar	3.77%
Analog Devices	1.37%	2. Valspar	3.24%
Chubb	2.45%	3. Gorman-Rupp	2.96%
ConocoPhillips	1.22%	4. Johnson Controls	2.78%
DPL	0.44%	5. PACCAR	2.51%
Gorman-Rupp	2.96%	6. Chubb	2.45%
Helmerich & Payne	0.87%	7. Compass Minerals International	2.27%
Hershey	2.14%	8. NSTAR	2.22%
Marathon Oil	2.01%	9. Colgate-Palmolive	2.20%
Microchip Technology	1.66%	10. H.J. Heinz	2.18%
Pfizer	0.85%		
Sara Lee	0.59%		
Valspar	3.24%		
Walgreen	0.38%		
Wisconsin Energy	0.50%		

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 Pioneer Investments for a 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.

## Performance Attribution: Background

This performance attribution seeks to identify and quantify the drivers of portfolio performance relative to that of a benchmark. How much of a return difference was due to different exposures to asset class, country, sector or similar factors? How much was due to specific securities?

### Here's how we answer the question for equity portfolios:

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.

#### GRAPHIC PRESENTATION

We present attribution results using three graphs. Graph 1 shows the allocation of the portfolio across different segments (industries/sectors/countries, etc.). Overweights and underweights are visible. Graph 2 shows the returns of each portfolio and corresponding benchmark segment. Success at security selection is easily spotted. By using the data underlying the first two graphs, we calculate the data for Graph 3, the impact of Weighting and Selection decisions on benchmark-relative return.

#### WEIGHTING IMPACT

It pays to overweight portfolio segments which perform better than average. The weighting impact measures the impact of the decision to overweight or underweight particular asset classes relative to benchmark weightings. In our model, the value added by an overweight, or its weighting impact is defined as the size of the overweight (portfolio weight minus benchmark weight) times the payback (the return of the overweighted asset minus the return of the entire benchmark).

A positive allocation effect arises from being overweight sectors/countries that produce a greater return than the benchmark average or being underweight a sector/country that underperforms the benchmark return. The formula for calculating the weighting impact is:  $(\text{Portfolio weight} - \text{Benchmark weight}) \times (\text{Benchmark segment return} - \text{Benchmark total return})$

#### SELECTION IMPACT

Within each segment, it pays to overweight securities which outperform. The selection effect evaluates the manager's skill at choosing outperforming securities.

In our model, the value added by specific selection, or selection impact, is defined as the weight of the portfolio position times the difference between the position's return and the benchmark return. The formula for calculating the weighting impact is:  $(\text{Portfolio weight}) \times (\text{Portfolio segment return} - \text{Benchmark segment return})$ .

#### IMPORTANT NOTES

We are presenting results of a two-factor model. We also use a three-factor model, which has an "interaction effect." The two- and three-factor models are quite similar; we have chosen the two-factor approach for its greater ease of use.

The real world is far more complex than any two-factor model can accurately describe. Performance attribution models can deepen understanding, but their limitations – they are just estimates – must be remembered.

Actual portfolios have fees and expenses. Our performance attributions ignore fees and expenses: the hypothetical portfolios used in performance attribution are before fees and costs.

Not FDIC insured	May lose value	No bank guarantee
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