



Ladies and Gentlemen,

It gives me great pleasure to observe that all the signs indicate that 2003 will be remembered as the year in which the three-year bear market, which began in March 2000, finally ended. The global economy and global markets are showing signs of revival.

It is significant that even in a period which did not look favourably upon investments, our division, Pioneer Investments New Europe, maintained the trust and goodwill of its clients. Perhaps you already know that this division looks after clients on the markets of Central and East Europe (Poland, Bulgaria, the Czech Republic, Slovakia and Croatia). Since 2000 we have increased fivefold the volume of investments which our clients have entrusted to our management.

Our general objective is to create a strong position on all the markets of the New Europe and use it as a space in which to improve services for clients. The Czech Republic is one of the significant markets for our division. The planned merger of our subsidiary company Pioneer česká investiční společnost, a.s. with ŽB-Trust, investiční společnost, a.s. will open up the space for us to meet the requirements of our Czech customers more effectively, especially in respect of the products and service we offer.

I am convinced that all of us have high hopes that the global economy will develop positively. We can take pleasure in the fact that the economic revival of the USA and attendant growth in employment could become a driving force for the global economy. However, I do not believe that the capital markets can experience the kind of growth they enjoyed in the nineties.

Ladies and Gentlemen, may I take this opportunity to wish you great tranquillity in your personal life and success in your professional life in the year 2004

Daniel Kingsbury

President of the Pioneer Investments
New Europe Division



2003 WAS THE TURNING POINT

There are many reasons to believe that last year the deepest and most extensive recession on the capital markets in the last 30 years ended. For 3 years stock prices plummeted and it was only in 2002 that there was a hint of a turnaround. And then along came the war in Iraq and slowed things down, and we can only really speak of a significant growth in stock prices from March of 2003.

For a large number of the investing public on emerging markets the three-year long recession came as a blow to previously held beliefs. It was their first real experience of a negative cycle, and a sharp and dramatic one at that. Over the years, as memories of this period lose their emotional immediacy, people may come to view this experience in a positive light. Literally every player on the market learned something new, and if used properly this newly acquired knowledge will be to the benefit of the market and the investors themselves. However, the fact remains that the investment objectives of many investors around the world were not met and they were obliged to extend their investment horizons and review their portfolio.

■ **The hopes of 2002 dashed**

Many economists and analysts believed that the turnaround would come in 2002. They were encouraged in this belief by improvements to the macroeconomic situation in the USA and economising on the part of companies. However, the feelings of the stock markets ignored a fundamental economic fact, i.e. that sentiment is based on expectations and these were too deeply affected by the experience of the slump. A certain mistrust of shares will continue to the present day, acting against the interests of the investors themselves. Although the stock indices turned a corner at the beginning of October 2002, geopolitical insecurity stemming from the war in Iraq put the dampers on more extensive change. Moreover, at the



close of 2002 bourses lost what they had gained in October and November. The drop was not negligible. The Dow Jones lost approximately 17 percent. The Nasdaq Composite plummeted 30 percent in the same period. The European DJ Euro Stoxx 50 fell by some 38 percent and the German DAX index by 45 percent.

■ **Insecure beginnings and a happy end**

January of 2003 was again unkind. The harshness of the weather acted as a backdrop to nervousness on the part of stock investors. At the end of January they decamped in their droves to assets which they saw as being less risky. Few of them paid heed to the voices of those who claimed that a time was coming when it would be good to invest in shares. The penultimate week in January was marked by decreases, the largest recorded by the German DAX of 7 percent. Geopolitical insecurity brought stock prices to a new low. Speculators and those who had managed to keep a cool head when evaluating the situation began to in-

vest in shares. After the victory of the coalition forces in Iraq it was the turn of hordes of regular investors to follow the investment vanguard. However, those who earned the most were the ones who got in first and did not base their investment decisions on the so-called two-way mirror (according to yields already achieved or being achieved). It became clear that the important thing was to have invested in the period when the stock market was reviving, since yields on the growth curve were sharp. The key indices did well. The S&P 500 index put on almost 22 percent as of 3. 12. 2003. This favourable development was reflected in the performance of the group funds. As an example we can point to the sharp growth in the dollar sub-funds of Pioneer Funds – Global Technology (+39% as of 3. 12. 2003), PF – U.S. Mid Cap Value (+33.9% as of 3. 12. 2003). These are remarkable results. However, the main reason for citing these results is that they are an integral part of the experience of the last three-year slump. The same experience informed us that investment laws do not suddenly cease to apply simply because the depression of the market intrudes upon the prevailing feeling. The law is also confirmed which says that a negative cycle always ends. Perhaps this is the place to remind ourselves that stock is the main creator of investment wealth and can offer investors considerable yields, but only on the premise that these investors can handle the risks to which they are exposed over the short term.

PRESS RELEASE BY PIONEER GLOBAL ASSET MANAGEMENT S.p.A. and ŽIVNOSTENSKÁ BANKA, a.s.

The first phase of the integration of the investment activities of the UniCredito Italiano group on the Czech market is complete

(Prague 13 January 2004) – On 22 December 2003 the Czech Securities Commission gave its assent to the acquisition by Pioneer Global Asset Management S.p.A. (PGAM) of a 100% interest in the registered capital and voting rights of the investment company ŽB - Trust, investiční společnost, a.s. The decision became effective as of 29 December 2003.

The transfer of the ŽB - Trust, investiční společnost, a.s. shares from the shareholder at that time, Živnostenská banka, a.s., took place on 7 January 2004 and PGAM became its sole shareholder. Both the buyer and the seller are members of the leading European financial group UniCredito Italiano. On 29 October 2003 the Czech Securiti-

es Commission gave its assent to the acquisition by PGAM of a 100% interest in the registered capital and voting rights of the securities broker ŽB - Asset Management, a.s.. The decision became effective as of 18 November 2003. The transfer of ŽB - Management, a.s. shares from the shareholder at that time, Živnostenská banka, a.s., took place on

WHAT DOES 2004 HOLD IN STORE?

Views expressed in this article are based on predictions of Pioneer's investment team

In our view the outlook for the year ahead looks quite optimistic. Key drivers of equities in 2004 are likely to be fairly robust, i.e. economic data reflecting moderate growth, improving corporate earnings and demand for equity from investors who have so far remained on the sidelines during the upturn in the cycle. The global economic recovery has been confirmed, business confidence is high and the cash flow of companies has improved substantially. While economic growth in the US is unlikely to replicate its fast pace achieved during the second half of 2003, the US will continue to drive global economic growth. The global economy has returned to growth, albeit at a moderate pace, and this is positive for equities.

■ Growth in equity markets

Economic growth in 2004 will benefit corporate earnings, thereby offering support to the equity market. However, once the positive effects of cost cutting on earnings subside, companies will have to rely on increasing sales in order to drive earnings growth further. Most recently the majority of companies surprised the market with better than expected corporate earnings but remained cautious regarding guidance due to their limited visibility on future sales. Furthermore, while there is a pick-up in spending by companies this has mostly been focused on replacement of equipment rather than expansion. In this scenario, share price growth over the year is likely to be more moderate than the pace of gains during 2003.

■ New investment focus?

Growth in the equity markets in 2004 will be more closely correlated with the pace of corporate earnings growth. The year of 2004 is likely to be a year of transition towards a greater focus on high quality companies with strong cash flow positions, solid balance sheets and attractive dividends. In 2003 low quality companies rebounded amid a re-rating of investor risk tolerance. In many cases the share price gains registered by lower quality companies already discount a very optimistic scenario of higher sales and earnings that will be difficult to achieve. We believe this phase of re-rating is now complete.

■ Attractively valued equity markets

Equity markets offer reasonable value in absolute terms and are attractively valued compared to other investments such as government bonds and cash. Equity market volatility has declined substantially and should remain low given the solid foundation of an improving macroeconomic environment. Furthermore, a pick up in corporate merger & acquisition activity is likely to be supportive of equity valuations. For these reasons we expect equities to outperform versus bonds over 2004.

■ Pioneer Investments allocation

Within our asset allocation we are overweight in US equities based on the higher growth rates forecast for the economy. However, given the potential for further US dollar weakness we retain a cautious stance in this market. We are neutral on European equity. Economic

growth rates in Europe will be lower than in the US but this has largely been discounted in equity valuations and European equity could surprise on the upside. In Japan we retain an underweight position. While equity valuations are not challenging in Japan, risks such as deflation and currency appreciation linger. In contrast, the Pacific Ex-Japan re-

gion continues to offer attractive valuations and the strong potential for intra-regional and export growth. We are overweight in this equity region. Finally, Emerging markets look set to continue to outperform developed markets on the back of their higher than average economic growth expectations and improving fundamentals in many countries.

In 2004 we expect equities to outperform versus bonds.

NEW RISKS AND THE INVESTMENT HORIZON

A twenty-year investment horizon would seem to most investors like a tunnel stretching into infinity.

The idea that their financial planning should begin resolving today the situation of 30 years hence would strike them as exaggerated. This is because the ability to deal with a long-term investment horizon is socially conditioned and not subject to rational consideration. The old paternalistic social systems supported life over the short term. Immediate consumption was a key factor for consideration, while the needs of longer-term fluctuations (health, education, old-age pensions) would somehow be provided for. It was pointless to give consideration to the distant future. These days the situation is definitively and irrevocably different. The European Community is going to have to sort out the impacts of the largest social systematic changes of the century. The catastrophic demographic profile of Europe is a challenge to us all and increases levels of risk. Some believe that by using new technology social economic stability can be achieved along with low migration movements. If this optimistic hypothesis proves unfounded, the continent will be exposed to both cultural and social risks. The countries with the worst demographic profile will have to integrate millions of immigrants. If this endeavour is blocked politically, the economies of these countries will find themselves caught in the grip of chronic slump. Considerable political tensions may arise resulting from friction between generations and ethnic groups. In very complex situations with unclear outcomes it is the simplest self-protective measures which work. If the number of situations increases in our life in which only our own money can help, then we have to have our own money. If we do not inherit it, then we have to create it. The luckier have a long-term investment horizon at their disposal within the framework of which they will be able to attempt to create a financial pillow with which to protect themselves.

PRESS RELEASE BY PIONEER GLOBAL ASSET MANAGEMENT S.p.A. and ŽIVNOSTENSKÁ BANKA, a.s.

30 December 2003 and PGAM became its sole shareholder.

On 29 December 2003 the Securities Commission also decided in the matter of an application submitted by the companies ŽB - Trust, investiční společnost, a.s. and Pioneer česká investiční společnost, a.s. for permission to transfer the management of the unit trust Pioneer Trust* to the company ŽB - Trust, investiční společnost, a.s.

The management activities of the Pioneer Trust unit trust were transferred on 9 January 2004.

The decisions referred to above are part of a carefully planned integration of the investment activities of the UniCredito Italiano group on the Czech market.

Management of the integration process as well as management of the successor company which will result from the merger of both investment companies was delegated to Roman Pospíšil, managing director of Pioneer česká investiční společnost, a.s. since March 2003.

Both Jiří Kunert, managing director of Živnostenská banka a. s., and Daniel K. Kingsbury, director of the Pioneer Investments New Europe Division, expressed their satisfaction with the completion of this first phase of the integration in which all the UniCredito Italiano asset management activities have been brought under the common management of Pioneer Investments, the asset management arm of the UniCredito group.

Dario Frigerio, CEO of Pioneer Investments based in Milan commented, "We are very excited to integrate the Živnostenská banka asset management companies in the global asset management activity of Pioneer Investments. We believe this will enhance the range of products and services which we can bring to the Czech market particularly as the Czech Republic enters the EU in May of this year." Jiří Kunert added "From the perspective of Živnostenská banka, we see this as a very positive step in providing investment products and services to our clients."

Pioneer Global Asset Management S.p.A. is a global holding company of the UniCredito Italiano group responsible for

the group's investment activities. The group of PGAM subsidiaries uses the corporate name Pioneer Investments. As of December 2003 Pioneer Global Assets Management S.p.A. subsidiaries managed global investments totalling EURO 115.8 billion. The Pioneer Investments group brings the experience and quality of an investments manager active for 75 years to the markets on which it operates.

In the Czech Republic Pioneer Global Asset Management S.p.A. has up until now been the sole shareholder in Pioneer česká investiční společnost, a.s., and the sole partner in Pioneer česká finanční společnost, s.r.o.