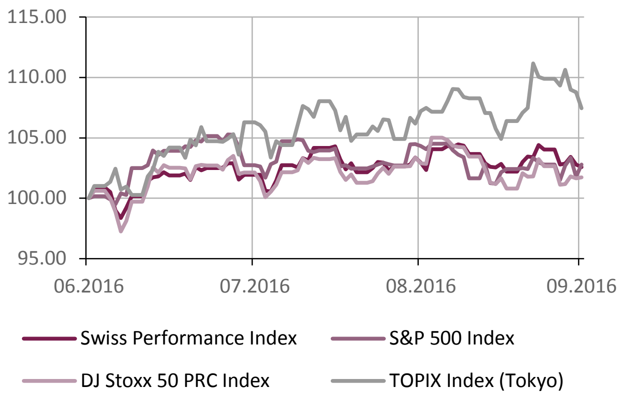
Investment report of Vita Joint Foundation
September 30, 2016

Brexit presents Eurozone with new challenges.

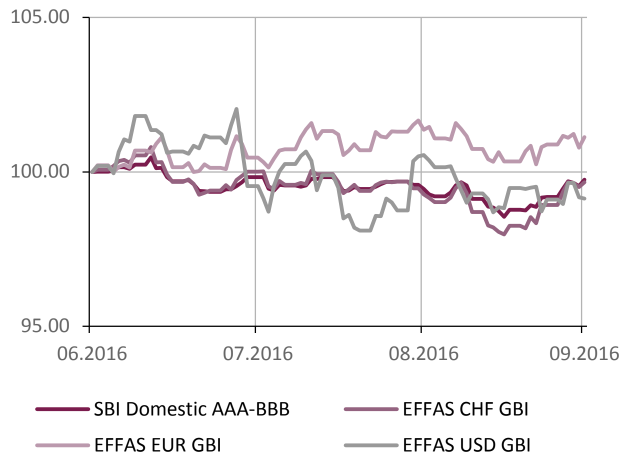
Financial markets
A large proportion of the losses on the equity markets following the Brexit vote could be recovered. The British pound devalued significantly against the US dollar, hitting a thirty-year low. The Swiss National Bank (SNB) intervened on the foreign exchange market immediately after the Brexit announcement to prevent an excessive appreciation of the Swiss franc. However, SNB Chairman Thomas Jordan did not want to want to make a statement about the extent of the foreign exchange transactions. In order to limit the negative effects of leaving the EU, the Bank of England provided the market with additional liquidity amounting to 150 billion pounds at the start of July. It also lowered the base rate from 0.5 percent to 0.25 percent at the start of August, and further extended its bond-purchasing program. In spite of the monetary policy measures, the mood of consumers in Great Britain worsened significantly and fell to its lowest level since 2013.

Development of the equity markets based on CHF



In contrast to the Bank of England, the European Central Bank (ECB) took no further monetary policy measures at the start of September. The conditions for the acquisition of cheap money were retained, to continue boosting the European economy. However, even in the course of the third quarter the desired boost did not have the hoped for effect on the economy. Prices in the Eurozone only rose slightly, in spite of the glut of ECB money. For that reason we might expect further monetary easing measures by the ECB. There is also the possibility that the Brexit vote will significantly curb economic growth in the Eurozone. Even though the unemployment rate in the Eurozone has been at its lowest level since August 2011, consumer confidence and industrial production have remained well below expectations. According to some economists, this might be interpreted as a negative reaction to the Brexit vote.

Development of the bond markets based on CHF



The US economy was still sending out mixed signals during the third quarter. Consumer confidence rose to its highest level in over nine years in September. In spite of that the published purchasing manager data were disappointing. They still indicated slow growth in the US economy. What is more, the US economy also created considerably fewer jobs in September than expected by economists. So at the end of September the US Federal Reserve left its base rate unchanged for the time being. However, as the other economic indicators continue to paint a positive picture of the US economy, the Fed is expected to stick to its guns and raise interest rates at least once this year.

The Swiss economy also put on a show of strength in the third quarter. On the one hand the purchasing managers' index rose more strongly than expected in September. On the other hand domestic demand and the manufacturing industry remained solid in the third quarter. Economists still expect a recovery in exports, which could provide the economy with a further boost.

In China, economic data in the third quarter gave reason to hope for a stabilization of the economy. Industrial production increased more than expected. Retail sales and investment also rose significantly compared with the previous year. Imports and exports continued to disappoint, falling faster than expected.

Japan's economy did not see any significant boost in the third quarter either. Once again it was primarily the trade data that were disappointing. Exports were still suffering from the strength of the yen and they dropped considerably in comparison with the previous year. Imports also fell year on year. The Bank of Japan left its base rate unchanged at -0,1 percent at the end of September. Despite that it wants to try again to hold the return on the 10-year government bonds at the current level by means of its securities purchasing program. In spite of the ultralight monetary policy, Japan does not seem to be emerging from deflation. This is also clearly demonstrated by falling consumer prices.

The price for oil has recovered considerably in recent months. Previously it had come under pressure following the Brexit referendum. Falling stocks and a renewed discussion by OPEC about limiting oil production had a positive effect on the oil price.

Measured on the basis of the Swiss Bond Index, the domestic bond markets recorded a drop of 0.25 percent. EUR bonds closed up 1.50 percent. USD bonds ended the quarter down 0.82 percent (all values in CHF).

In this environment, the SMI concluded the quarter up 1.48 percent, the US Dow Jones was up 1.56 percent and the European DJ Eurostoxx50 index gained 5.69 percent (all values in CHF).

On the currency markets, the euro closed with a gain of 0.66% and the US dollar fell by 0.82%. The yen ended the quarter up 1.20 percent (all values against the CHF).

Portfolio return (third quarter)

After the portfolio was able to catch up for first quarter arrears by the middle of the year, the third quarter of 2016 delivered a positive result of 2.23%. July, and to a lesser extent August, were particularly helpful in this respect. In contrast, the performance in September was no better than zero.

The individual investment categories all finished the quarter in the black.
Equities scored best in the third quarter with 4.80%. They contributed 1.25% to the overall portfolio performance. The returns delivered by the equity sub-segments ranged from 3.39% (European equities) to 9.64% (Japanese equities). As a result of their proportionately heavy weighting, US equities made the biggest contribution with 0.37%.

Similarly emerging market equities, which at 6.68% also had a successful third quarter in 2016, contributed 0.32%.

Bonds finished up for the third quarter in a row this year. With an absolute return of 1.49%, they contributed 0.53% to overall portfolio performance. Corporate bonds and convertible bonds scored considerably better than government bonds.
Global convertible bonds, European and US corporate bonds rose by 4.21%, 2.33% and 1.42% respectively, resulting in contributions to overall portfolio performance of 0.22%, 0.19% and 0.09%. In contrast, Swiss bonds delivered the poorest performance at -0.06%, resulting in practically no contribution.

Real estate (1.44%) and mortgages (0.47%) ended another quarter on a positive note, contributing 0.16% and 0.03% respectively to overall portfolio performance. Once again this quarter, Swiss residential real estate made the greatest contribution among these sub-segments with 0.11%. The top-performing sub-segment was real estate Europe direct with 1.75%, making a 0.02% contribution.

Alternative investments contributed 0.24% to overall portfolio performance this quarter, resulting from an absolute return of 1.25%.
Despite the heterogeneous composition of this investment category, all the sub-segments finished up on the quarter .
The bandwidth ranged from 4.09% (Private Equity) to 0.20 (CLO).
The largest positive contribution is attributable to senior secured loans at 0.10%, an increase of 2.24% in absolute terms.

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	Vita portfolio	Benchmark	Difference
First half-year 2016	**0.18%**	**0.65%**	**0.47%**
07.2016	1.50%	1.34%	0.16%
08.2016	0.71%	0.74%	-0.03%
09.2016	0.01%	0.00%	0.01%
Third quarter 2016	**2.23%**	**2.09%**	**0.15%**
Year 2016 (TTWR)	**2.52%**	**2.75%**	**-0.23%**
Year 2016 (MWR net)	2.36%		

TTWR: True Time Weighted Rate of Return; portfolio performance disregarding the inflow and outflow of capital during the assessment period; since 2010, this calculation has been based on daily weightings that are geometrically linked.
MWR: Money weighted rate of return; portfolio performance taking into account capital inflows and outflows during the assessment period.

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Asset structure as of September 30, 2016

	In %	Target	Min.	Max.
		Strategy		
Swiss equities	6.19	6.00	4.20	7.80
Foreign equities	19.79	19.50	12.25	22.75
Total equities	**25.98**	**25.50**		
Swiss bonds	7.52	10.00	6.30	11.70
Foreign bonds	28.07	26.00	18.20	33.80
Total capital market	**35.59**	**36.00**		
Swiss real estate	7.62	7.00	4.90	15.10
Foreign real estate	3.31	3.00	0.70	3.90
Total real estate	**10.93**	**10.00**		
Mortgages	6.75	8.00	5.60	10.40
Total mortgages	**6.75**	**8.00**		
Private equity	1.17	1.00	0.00	3.90
Hedge fund	9.58	10.00	7.00	13.00
Infrastructure	0.92	1.00	0.00	2.60
Senior loans	4.22	4.00	2.80	5.20
Insurance-linked securities	2.72	3.00	0.00	3.90
Collateralized loan obligation	0.82	1.00	0.00	1.30
Total alternative investments	**19.43**	**20.00**		
Total liquidity	**1.28**	**0.50**	**0.00**	**5.00**
Total miscellaneous	**0.04**			
Total	**100.00**	**100.00**		

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