

Pleasing result in a low-interest environment

Ladies and gentlemen

1. Performance, Investment Climate and Investments in 2016

Performance in 2016

The Pension Fund is able to report a pleasing performance of +4.57% for 2016.

Investment Climate

The international equity markets were in "sale" mode as 2016 got underway, with key markets dropping between 10% and 15% up to mid-February. Prices plummeted on fears of a hard landing for the Chinese economy, as well as the collapse in the oil price.

The stock markets nonetheless recovered swiftly, as negative interest rates in Europe and Switzerland touched new lows by mid-year.

In the second half of 2016 they were unstoppable, despite Brexit, the election of Donald Trump and rising interest rates in the USA. Indeed, a number of US indices climbed to new highs. This was not the case in Switzerland. The two SMI heavyweights Novartis and Roche, as well as both major banks, UBS and CS, had been well into negative territory since the beginning of the year. That said, small and mid-cap stocks in Switzerland posted a pleasing performance.

Both short and long-term Swiss interest rates remained stubbornly negative throughout the year. Their highest point was reached mid-year, when 10-year Confederation bonds were producing a "return" of -0.6% p.a.

As interest rates rose and the economy picked up in the USA in the second half of the year, the USD appreciated by around 2% against the CHF. In the first half, the EUR passed the 1.10 threshold against the Swiss franc for a time. It has since lost value once again, but has settled at a level of approximately 1.08 thanks to strong support from the National Bank.

Details of Investment Performance

With the exception of hedge funds (-0.62%) and a residual commodities holding, all asset classes generated positive results. At +10.0%, foreign equities generated the best result, followed by infrastructure investments, at +7.5%. Real estate, which at over 30% is the largest investment sector, once again produced a good result, of +6.3%.

Owing to a lower discount rate, the Pension Fund's own real estate holdings were again re-valued upward by around 3%. Here, it should be remembered that any increase in interest rates will also raise the discount rate, which will then impact negatively on the value of the real estate portfolio.

In view of persistently high investment in the rental apartment sector throughout Switzerland, and the modest decline in immigration, it will be increasingly difficult to rent out newly built flats. Our real estate holdings, which are located primarily in the greater Zurich, Lucerne and Lausanne areas, have not yet been affected by these trends. The average vacancy rate remains around 1%.

In view of the broad geographical diversification of our investment strategy, our foreign currency allocation is a comparatively high 30%. The USD accounts for half of this. The EUR share is approximately 8 percentage points, and the remainder is divided between a number of different currencies.

Feldbreite real estate project in Emmen

Around 80% of the 179 apartments constructed in the joint building project with the Luzerner Pensionskasse (plots D1 and BB1) are currently rented out. While rentals of smaller apartments went well, it is proving more difficult to find tenants for the three and four-bedroom flats.

All of the objections to the project for plots A3/B2 (a gift from the Alfred Schindler Fund to the Pension Fund) could be settled in the autumn of 2016. We now expect the final construction permit to be granted in January 2017. The plans include 63 studio and one-bedroom apartments, ten two-bedroom and two three-bedroom apartments. Commercial space is planned for the ground floor.

2. Cover ratio

Although the +4.57% performance is well over the minimum return of +2.0% required for a balanced operating result, the cover ratio will probably come in at around 114% (end-2015: 114.4%).

As we notified you in September, a provision of CHF 54 million was made with effect from December 31, 2016, to cover the planned one-off credit as at January 1, 2018 that will be paid in connection with the reduction in the conversion rate. This reduced the cover ratio by approximately three percentage points. On a positive note, it should be added that the financing for all aspects of the revision of the Pension Fund Rules effective January 1, 2018 was thus already in place at the end of 2016, and that the Pension Fund still has a cover ratio of around 114%.

3. Investment Strategy 2017

The Board of Trustees has decided to continue pursuing the current investment strategy without any changes. The 2017 investment strategy and asset allocation as at December 31, 2016, are as follows:

| In % | As at 31.12.2016 | Strategy 2016/2017 | Bandwidths |
|-----------------------------------|---------------------|-----------------------|------------|
| Cash and other | 3.0 | 1.0 | 0 - 15% |
| CHF bonds | 16.4 | 16.5 | +/-10% |
| For. curr. bonds (hedged) | 4.2 | 4.0 | +/-3.0% |
| For. curr. bonds | 1.1 | 0.0 | 0 - 5% |
| Swiss equities | 10.9 | 10.0 | +/-3.0% |
| Foreign equities | 16.8 | 16.5 | +/-3.0% |
| Swiss real estate | 30.8 | 33.0 | +/-7.0% |
| Alternative internat. real estate | 1.9 | 2.0 | +/-2.0% |
| Private equity | 4.8 | 6.0 | +/-2.0% |
| Hedge funds | 1.9 | 2.0 | +/-2.0% |
| Ins.-linked securities | 4.2 | 4.0 | +/-1.0% |
| Alternative bonds | 1.4 | 2.0 | +/-2.0% |
| Commodities | 0.1 | 0.0 | 0 - 2% |
| Infrastructure | 2.5 | 3.0 | +/-2.0% |
| | 100.0 | 100.0 | |

The investment strategy results in the following allocation across the four basic sectors:

| | | |
|-----------------------------|-------|-------|
| Par-value investments/bonds | 24.7 | 21.5 |
| Equities | 27.7 | 26.5 |
| Swiss real estate | 30.8 | 33.0 |
| Alternative investments | 16.8 | 19.0 |
| | 100.0 | 100.0 |

4. Miscellaneous Actuarial Information

a) Interest on Retirement Assets in 2016

Interest of 1.55% will be paid on retirement assets for 2016. This interest is composed as follows:

| | |
|--|--------------|
| Minimum BVG interest rate | 1.25% |
| Contribution from the Alfred Schindler Fund* | 0.30% |
| Total | 1.55% |

*=Compensatory measures connected with the reduction in the conversion rate up to 2017.

b) Interest on Retirement Assets for Withdrawals up to November 30, 2017

In 2017, **interest** on retirement assets belonging to persons withdrawing from the fund before November 30, 2017, will be paid at the new **minimum BVG interest rate of 1.0%**.

c) Pension Payments in 2017

In view of the results for the 2016 financial year, the actuarial interest rate of 2.5% and the current cover ratio, the Board of Directors has decided not to adjust pensions in 2017.

d) Thresholds in 2017

The thresholds applied by the Schindler Pension Fund are not being adjusted, and remain as follows:

| | 2016 / 2017 |
|------------------------|-------------|
| Minimum annual salary | 21'150 |
| Coordination deduction | 14'100 |
| Maximum insured salary | 155'100 |

5. Implementation of the Minder Initiative

The Pension Fund exercised its shareholder voting rights at more than 30 annual general meetings of companies in which shares are held directly, in accordance with ERCO (the Ordinance Against Excessive Remuneration in Listed Companies Limited by Shares). Details of the way in which these rights were exercised can be found on the Pension Fund website (www.schindler-pk.ch).

6. Revision of Rules as of January 1, 2017 / new legislation on divorce

In connection with the entry into force of new Swiss legislation on divorce, the Board of Trustees has amended the Pension Fund Rules with effect from January 1, 2017, and adopted the corresponding Addendum. The principal element of the new legislation is that pension rights are to be divided between the spouses in the event of divorce, even if one of the spouses is already receiving a pension at the time. In view of the numbers receiving pensions from the Pension Fund, we expect to see one such case per year.

The Addendum to the Rules as of January 1, 2017, has been published on the website (www.schindler-pk.ch).

Should you require any further information, please do not hesitate to contact members of the Board of Trustees or the Management.

Yours sincerely

Schindler Pension Fund



Heinz Risi
Chairman of the Board of Trustees



Mario Passerini
Managing Director

Ebikon, January 2017