Investment guidelines Novartis Pension Fund 1

Principles of investment (excerpts)

Safety, long-term value and yield, social, environmental and governance considerations

The available funds are invested with an appropriate distribution of risks and sufficient liquidity, with the aim of achieving a long-term return above the required actuarial return as part of the Strategic Asset Allocation (SAA).

Environmental and social considerations as well as governance aspects (ESG) are taken into account in the direct investment activity as follows:

For our direct investments we prefer companies that

1. operate production facilities of high ecological standard and use production processes that minimize the environmental impact
2. guarantee the environmental compatibility of the products (longer life cycle, possibilities of recycling, waste reduction)
3. ensure transparency and openness towards stakeholders (shareholders, employees, customers and suppliers)
4. create humane working conditions, ensure exemplary social benefits and respect gender equality.

We avoid investments in companies that

1. repeatedly commit human rights violations
2. produce and trade in defense equipment as a core business
3. maintain extensive direct business relationships with totalitarian regimes
4. operate tobacco production and trade as a core business.

The terms «core business» and «extensive business relationship» are defined in such a way that the business activities in question generate a revenue share of more than 10%.

«Totalitarian regimes» are considered such states that are subject to international sanctions to which Switzerland has affiliated, for which in turn the list of current sanctions published by the State Secretariat for Economic Affairs (SECO) is decisive.

The implementation and monitoring of the investment principles have been entrusted to Portfolio Management.

Climate policy measures

In line with the Paris Climate Agreement, the Novartis Pension Fund 1 pursues the strategic goal of contributing to limiting global warming to 1.5°C with its investment policy and underlines this commitment by joining the PRI Net Zero Asset Owner Alliance and becoming a member of Climate Action 100+ ("Support Membership").

Companies in the energy, utilities, basic materials and industrials sectors as well as sovereign and quasi-sovereign bond issuers with low sustainability ratings are excluded. These companies also have a significant share of greenhouse gas emissions, whether due to the production of fossil fuels, emission-intensive industrial processes or the manufacture of products associated with the consumption of fossil fuels.

We expect emission targets to be developed in line with scientific knowledge and compatible with the 1.5°C limit. In the best-case scenario, the entire production chain is included (i.e. Scope 1-3) and a verifiable strategy ("transition plan") is developed. As a minimum, the emissions intensity from own production (Scope 1-2) should not exceed the median of comparable companies.

Investments in shares or bonds of companies whose thermal coal share of sales or energy production exceeds 10%, or which want to expand their coal capacity, are avoided. Green bonds are excluded if they serve to finance the transition to a lower-emission business model.

The sustainability assessment is carried out using MSCI ESG Research Ratings.

Sustainability aspects are also taken into account when selecting external managers and collective investment vehicles. The focus here is on the management of sustainability risks, in particular climate change.

«Thematic investments» are included in the form of green bonds.

In addition, the Novartis Pension Fund 1 will publish an annual sustainability report with climate-relevant key figures as part of a continuous monitoring of the climate compatibility of its investments.