

Novartis Pension Funds



Annual Report 2019

Purpose and Organization

The *Novartis Pension Fund 1* with close to 27 400 insured members and retirees and assets worth CHF 13.7 billion is one of the largest autonomous pension organizations in Switzerland. It is joined by the *Novartis Pension Fund 2* with assets amounting to CHF 617 million and the Management Pension Fund with assets amounting to CHF 376 million. As the recently published 2019 Annual Reports show, the Novartis Pension Funds are well positioned to meet current and future challenges. Not least among these are the changes resulting from

the Alcon spin-off and the ongoing restructuring measures. Given the number of employees affected by these transactions, the Novartis Pensions Funds have initiated a so-called partial liquidation in order to ensure equal treatment of the groups of leaving and remaining insured members. This means that not only the vested benefits but also a portion of the superannuation and fluctuation reserves will be transferred collectively to the new employers' pension funds, in due course.

Novartis Pension Fund 2 and Novartis Management Pension Fund – examples for an innovative approach

Even the highly regulated field of occupational pensions in Switzerland has leeway for flexible solutions. Besides offering insured members ways of tailoring their pension to meet their needs, these solutions also require them to take more personal responsibility. One example is the option to select the investment strategy in the non-mandatory area of pension arrangements. How this can work in practice is shown by the examples of the *Novartis Pension Fund 2* and the *Novartis*

Management Pension Fund, where various investment strategies with different risk/return profiles are offered for selection. Their performance ranged from -0.89% in the "low-risk" Money Market strategy to 14.58% in the "Equity 40 Plus" investment strategy. Overall, the performance of all strategies amounted to just under 10%. By the end of the year, around 40% of the participants had actively exercised their choice.

The Board of Trustees of the *Novartis Pension Fund 1* is made up equally of 7 employer's and 7 employees' representatives.

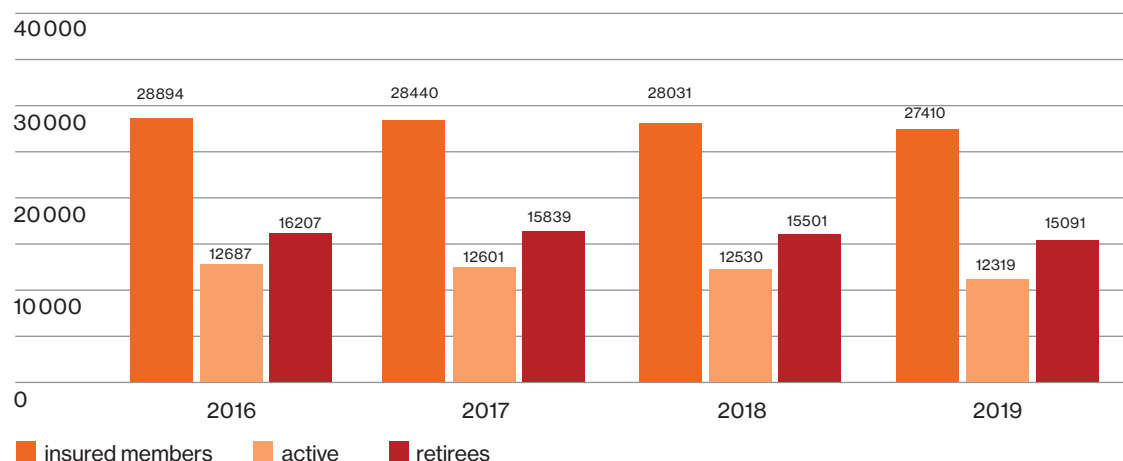
Organization *Novartis Pension Fund 1* (as of December 31, 2019)

Board of Trustees (Period of office from January 1, 2017 until December 31, 2020)	Management Dr. Markus Moser, Managing Director Marco Armellini, Deputy Managing Director
Employer's Representatives Daniel Weiss (Chairperson) Dr. Thomas Boesch Bertrand Bugnon Isabelle Defond Felix Eichhorn Dr. Matthias Leuenberger Dr. Christian Rehm	Statutory Auditor PricewaterhouseCoopers AG, Basel
Employees' Representatives Claudio Campestrin (Deputy Chairperson) Simone Danner Thomas Fuchs Davide Lauditi Daniel Linder Brigitte Martig Roger Staub	Actuary Libera AG, Zurich
Retirees' Committee Gilbert Fahrni, Reinach Rudolf Furrer, Obermumpf Rudolf Haas, Basel	Statutory Inspectorate BVG- und Stiftungsaufsicht beider Basel (BSABB) Eisengasse 8, 4001 Basel

Statistical Data

Let us start with some statistical data on Novartis Pension Fund 1 as reported in the actuarial statement: On 31 December 2019, there were 12,319 (previous year: 12,530) actively insured members compared with 15 091 (previous year: 15,501) retirees, of whom 9,621 had reached retirement age, 360 were drawing a disability

pension, and 4,731 were drawing a widow(er)'s pension. Orphans' and children's pensions accounted for a further 379 current pensions. The average current pension income amounted to CHF 40,617 (previous year: CHF 40,577).



Annual Statement for 2019

The investment strategy is aimed at achieving long-term security for the benefits of the pension plans, taking into account the concrete asset-liability status of the Fund, i.e. its actual financial situation as well as

the structure and likely development of its insured membership. As a Pension Fund we have to be able to guarantee the fulfilment of our long-term obligations at any time.

Change in fund value for the current business:

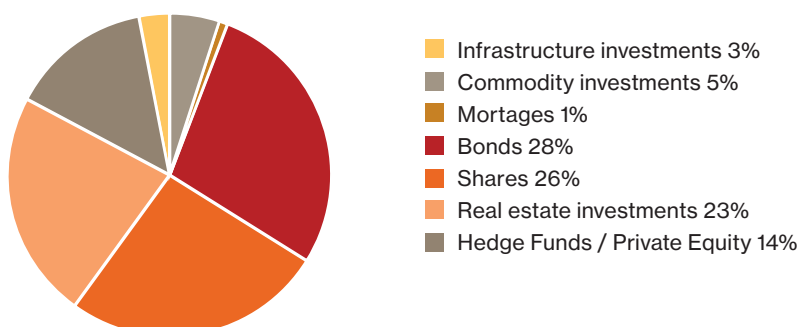
Income (CHF millions)	2019	2018
Employee contributions	118	114
Employer contributions	205	200
Joining fees and follow-up funding	126	121
Deposits on take-over of insured members	6	7
Earnings from investments	179	83
Realized gains from investments	514	521
Total income	1148	1 046
Expenditure (CHF millions)	2019	2018
Pension payments	-631	-650
Lump-sum payments	-22	-29
Portable sums, home ownership payments	-194	-142
Administrative costs	-4	-5
Payables	+28	-4
Total expenditure	-823	-830
Net cash flow	325	216
Cumulative change in asset values	+545	
Change in fund value	+870	

Based on the result from cash flows (CHF 325 million) and taking into account the cumulative change in value of the assets (+545 million), the overall increase in the Fund's value in 2019 amounted to CHF 870 million.

The following *Balance sheet* provides an overview of the assets of *Novartis Pension Fund 1* in terms of their market value.

Assets (CHF millions)	31.12.2019	31.12.2018
Liquidity deposits	613	438
Receivables	21	22
Bonds	3 806	3 762
Shares	3 590	3 213
Hedge funds and private equity	1 889	1 673
Infrastructure investments	444	407
Commodity investments	0	291
Mortgages	82	89
Real estate investments	3 172	2 934
Currency overlay	172	37
Collateral	-105	-52
Total assets	13 684	12 814
Obligations and deferrals	-68	-38
Net fund value	13 616	12 776

The composition of assets breaks down as follows:



Liabilities (CHF millions)*	31.12.2019	31.12.2018
Actuarial reserve and technical accruals	11 972	11 780
Fluctuation reserves	1 521	978
Free funds	123	18
Total liabilities	13 616	12 776

* Not including obligations and deferrals

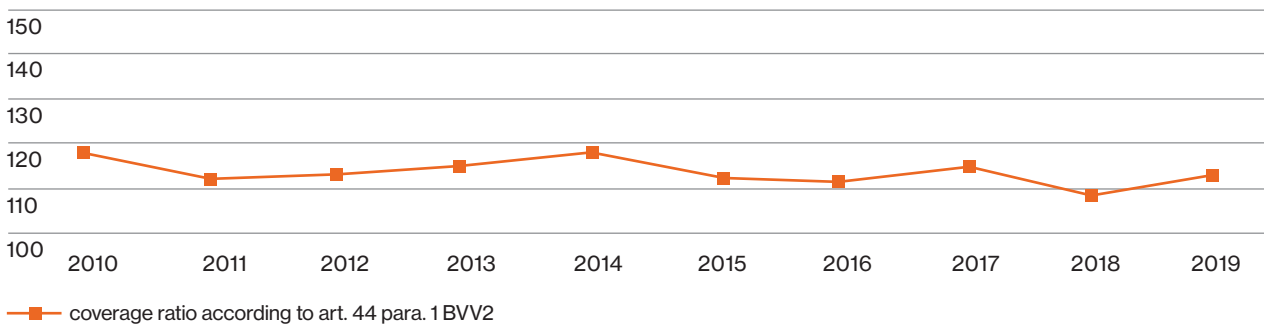
The assets are compared with the required *actuarial reserve* and technical accruals of CHF 11,972 million as per 31 December 2019, calculated in accordance with recognized actuarial principles based on art. 53 para. 2

BVG. In addition to these liabilities, there are fluctuation reserves set aside for the market-specific risks associated with these assets so that the Pension Fund retains its ability to handle financial risk.

The *funding ratio* is computed as the ratio of tied assets to free assets. Based on the statutory method of declaration in accordance with art. 44 para. 1 BVV 2, the funding ratio amounted to 113.7 percent. This means that the financial situation has been significantly strengthened compared to the previous year and that the fluctuation reserves are at their target level. Hence, the capacity of Novartis Pension Fund 1 to manage financial risk is deemed unrestricted within the framework of its strategic asset allocation. At the same time, provisions of CHF 369 million were made to further

strengthen the underlying capital base of the pension obligations (in the context of a further adjustment of the actuarial discount rate). Also reflected in the funding ratio are the substantial increases of the actuarial reserves for pensions over the past years and the provisions set aside for financing compensation credits in the context of the conversion rate adjustments enacted in January 2016. With all these measures, due account was taken of the persistent low interest rate levels and the continuously rising life expectancy.

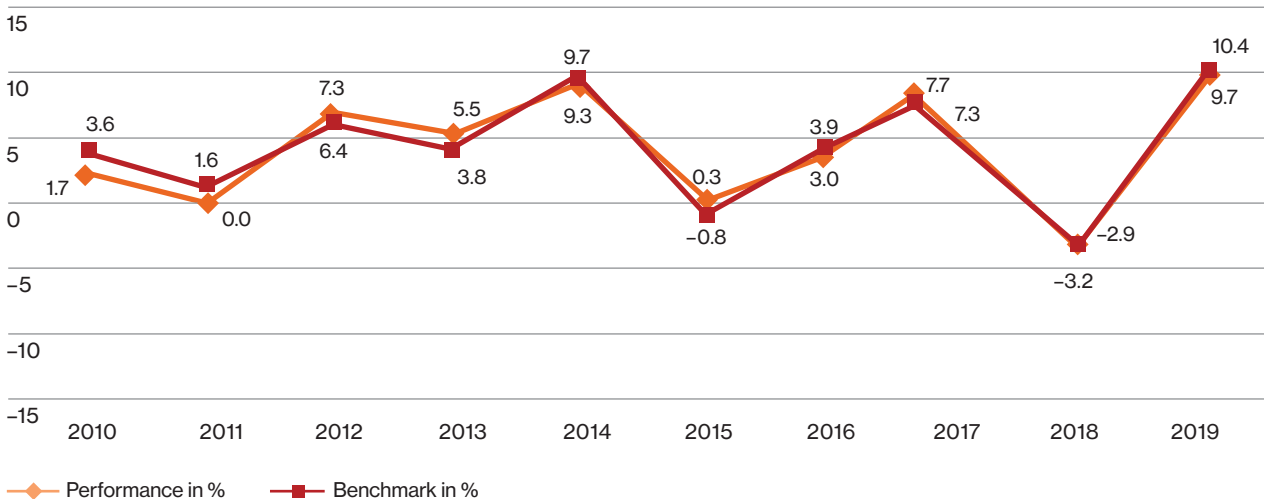
Development of Funding ratio 2010–2019, in %



Performance 2019

In contrast to the end of the previous year, market sentiment at the end of 2019 was quite optimistic. Some stock market indices rose to new record levels in December. The US Federal Reserve (Fed) left its monetary policy unchanged after three interest rate cuts in 2019 and ended the year on a positive note. Bond yields developed similarly to previous months. Over the course of the year, fixed-income investments showed a

robust performance due to the decline in global government bond yields and corporate bond spreads. The resulting capital gains more than offset the continued negative returns in all currencies (after hedging costs). Overall, with positive contributions from all asset classes with the exception of cash, the YTD performance for Pension Fund 1 was up by 9.73%, lagging the benchmark by 68 base points.



Would you like more information?

As a member of the Novartis Pension Funds, you may obtain the detailed Annual Report for 2019 from the Pension Fund Team: Please feel free to call

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markus-pk.moser@novartis.com

Basel, March 2020

Markus Moser / Thierry Beck-Wissmann