

Novartis Pension Funds



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Annual Report 2020



Purpose and Organization

The *Novartis Pension Fund 1* with close to 27 000 insured members and retirees and assets worth CHF 14.1 billion is one of the largest autonomous pension organizations in Switzerland. It is joined by the *Novartis Pension Fund 2* with assets of CHF 664 million, and the *Management Pension Fund* with assets amounting to CHF 417 million.

As the recently published 2020 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 –0.58% in the “low-risk” Money Market strategy to 8.27% in the newly introduced, specifically sustainable “Equity 25 ESG” investment strategy. Overall, the performance of all strategies amounted to just under 5%. By the end of the year, around 39% 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.

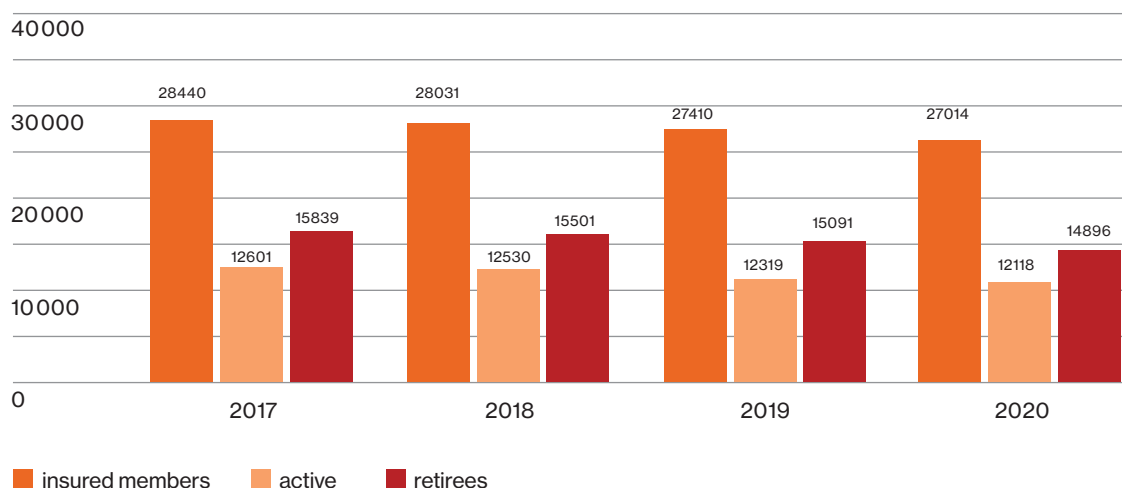
Organization *Novartis Pension Fund 1* (as of December 31, 2020)

Board of Trustees (Period of office from January 1, 2017 until December 31, 2020)	Management Dr. Markus Moser, <i>Managing Director</i> Marco Armellini, <i>Deputy Managing Director</i>
Employer's Representatives Daniel Weiss (<i>Chairperson</i>) Dr. Thomas Boesch Dr. Bertrand Bugnon Isabelle Defond Felix Eichhorn Dr. Matthias Leuenberger Dr. Christian Rehm	Statutory Auditor PricewaterhouseCoopers AG, Basel
Employees' Representatives Claudio Campestrin (<i>Deputy Chairperson</i>) Sarah Bardouille Simone Danner Andrea Fedriga-Hägeli Davide Lauditi Brigitte Martig Roger Staub	Actuary Libera AG, Zurich
Retirees' Committee Gilbert Fahrni, Reinach Rudolf Haas, Basel Daniel Linder, 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 2020, there were 12 118 (previous year: 12 319) actively insured members compared with 14 896 (previous year: 15 091) retirees, of whom 9 482 had reached retirement age, 354 were drawing a disability

pension, and 4 630 were drawing a widow(er)'s pension. Orphans' and children's pensions accounted for a further 430 current pensions. The average current pension income amounted to CHF 40 638 (previous year: CHF 40 617).



Annual Statement for 2020

The investment strategy is aimed at achieving long-term security for the benefits of the pension plans, taking into account the concrete assetliability 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:

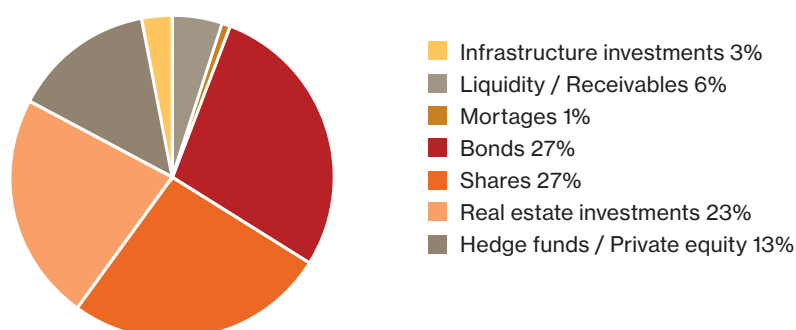
	2020	2019
Income (CHF millions)		
Employee contributions	118	118
Employer contributions	203	205
Joining fees and follow-up funding	117	126
Deposits on take-over of insured members	17	6
Earnings from investments	80	179
Realized gains from investments	656	514
Total income	1191	1148
Expenditure (CHF millions)		
Pension payments	-619	-631
Lump-sum payments	-40	-22
Portable sums, home ownership payments	-222	-194
Administrative costs	-4	-4
Diverse	-17	+28
Total expenditure	-902	-823
Net cash flow	289	325
Cumulative change in asset values	+143	
Change in fund value	+432	

Based on the result from cash flows (CHF 289 million) and taking into account the cumulative change in value of the assets (+143 million), the overall increase in the Fund's value in 2020 amounted to CHF 432 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)	31.12.2020	31.12.2019
Liquidity deposits	882	613
Receivables	21	21
Bonds	3791	3 806
Shares	3877	3 590
Hedge funds and private equity	1845	1 889
Infrastructure investments	426	444
Mortgages	72	82
Real estate investments	3 182	3 172
Currency overlay	136	172
Collateral	-116	-105
Total assets	14 116	13 684
Obligations and deferrals	-70	-68
Net fund value	14 046	13 616

The composition of assets breaks down as follows:



Liabilities (CHF millions)*	31.12.2020	31.12.2019
Actuarial reserve and technical accruals	11 963	11 972
Fluctuation reserves	1 627	1 521
Free funds	456	123
Total liabilities	14 046	13 616

* Not including obligations and deferrals

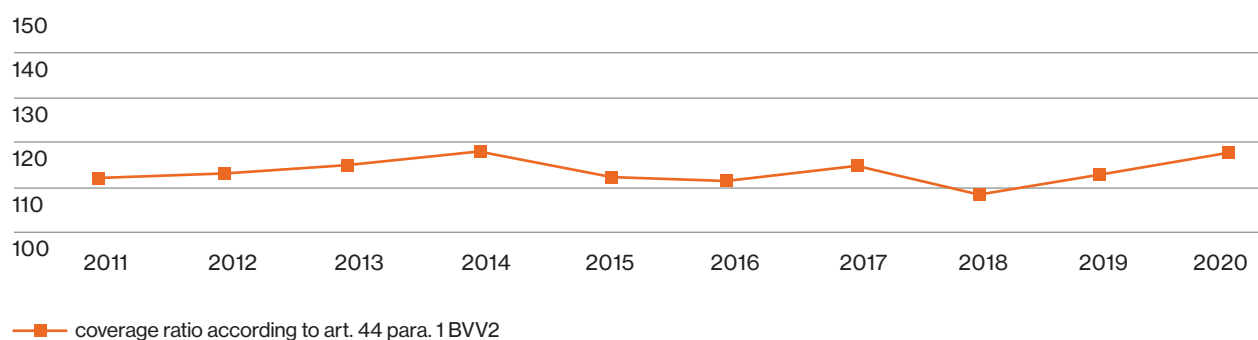
The assets are compared with the required *actuarial reserve* and technical accruals of CHF 11 963 million as per 31 December 2020, calculated in accordance with recognized actuarial principles based on art. 53 para. 2

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 117.4 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, set aside in the previous

year, were used 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 made 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 2011–2020, in %



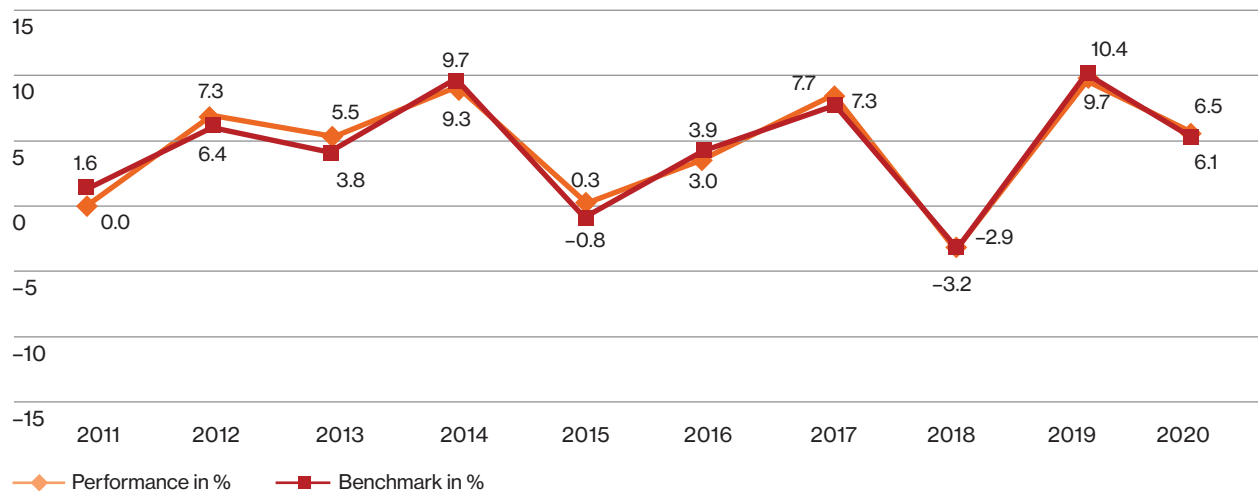
Performance 2020

Following the disruptions caused by the COVID-19 pandemic at the end of the 1st quarter, the extensive monetary and fiscal policy measures taken by numerous governments and central banks began to have a stabilizing effect in the 2nd quarter. Positive results from vaccine trials and improvements in economic data helped stock markets in the major industrialized countries and China to rally, which lasted well into the 3rd quarter and partially offset losses. After a cautious start into Q4, the stock markets set off on a renewed

bull market in early November and ended 2020 on a pleasing note, fueled by the start of the COVID vaccination programs in the USA and the UK, the adoption of a new stimulus package in the USA and a further expansion of monetary policy support by the ECB. The successful conclusion of trade talks between the EU and the UK also had a stimulating effect at the end of the year. In terms of bonds, global corporate bonds delivered the highest returns.

Overall, with positive contributions from all asset classes, except cash and foreign currencies, the YTD per-

formance for *Pension Fund 1* was up by 6.53%, exceeding the benchmark (6.14%) by 39 base points.



Would you like more information?

As a member of the Novartis Pension Funds, you may obtain the detailed Annual Report for 2020 from the Pension Fund Team: Please feel free to call

+41 61 324 24 20 or e-mail to:
markus-pk.moser@novartis.com

Basel, March 2021

Markus Moser / Thierry Beck-Wissmann