

What's good to know for your personal financial & retirement planning

**Novartis Pension Funds
Information events for Novartis
associates**

Webinar

March 14, 2024, and May 17, 2024

 **NOVARTIS** | Reimagining Medicine



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Agenda

- **Flexibility is key: The Novartis pension plans in Switzerland**
 - The Novartis defined contributions concept at a glance
 - Retirement credits: 3 contribution scales to choose from
 - Investment allocation: 4 basic strategies for your selection
 - New: «Sustainable» investment strategy as a 5th option
 - The LifeCycle model as a 6th strategy: The way it works
- **Presentation Vermögenszentrum (VZ)**
 - Key factors of the risk structure
 - Impact of the risk structure
 - Payout of retirement benefits

1.0

Flexibility is key

The Novartis pension plans in Switzerland

Flexibility is key(1)

Contribution scale

The retirement credits are age-related, with members being able to choose between three contribution scales (“Standard”, “Standard Minus” and “Standard Plus”).

Funding arrangements

The funding arrangements are based on a 2:1 ratio of employer and employee contributions (if the “Standard” contribution scale is chosen).

Early retirement

Early retirement (also partially) is possible from age 60 onwards.

Savings plan

An additional savings plan has been set up for all insured members aged 40 or older, based on equal contributions from associates/employer.

Survivor`s pension

At retirement, insured members may select a lifelong survivor`s pension for their partner in the same amount as the retirement pension („joint life“ annuity).

Flexibility is key (2)

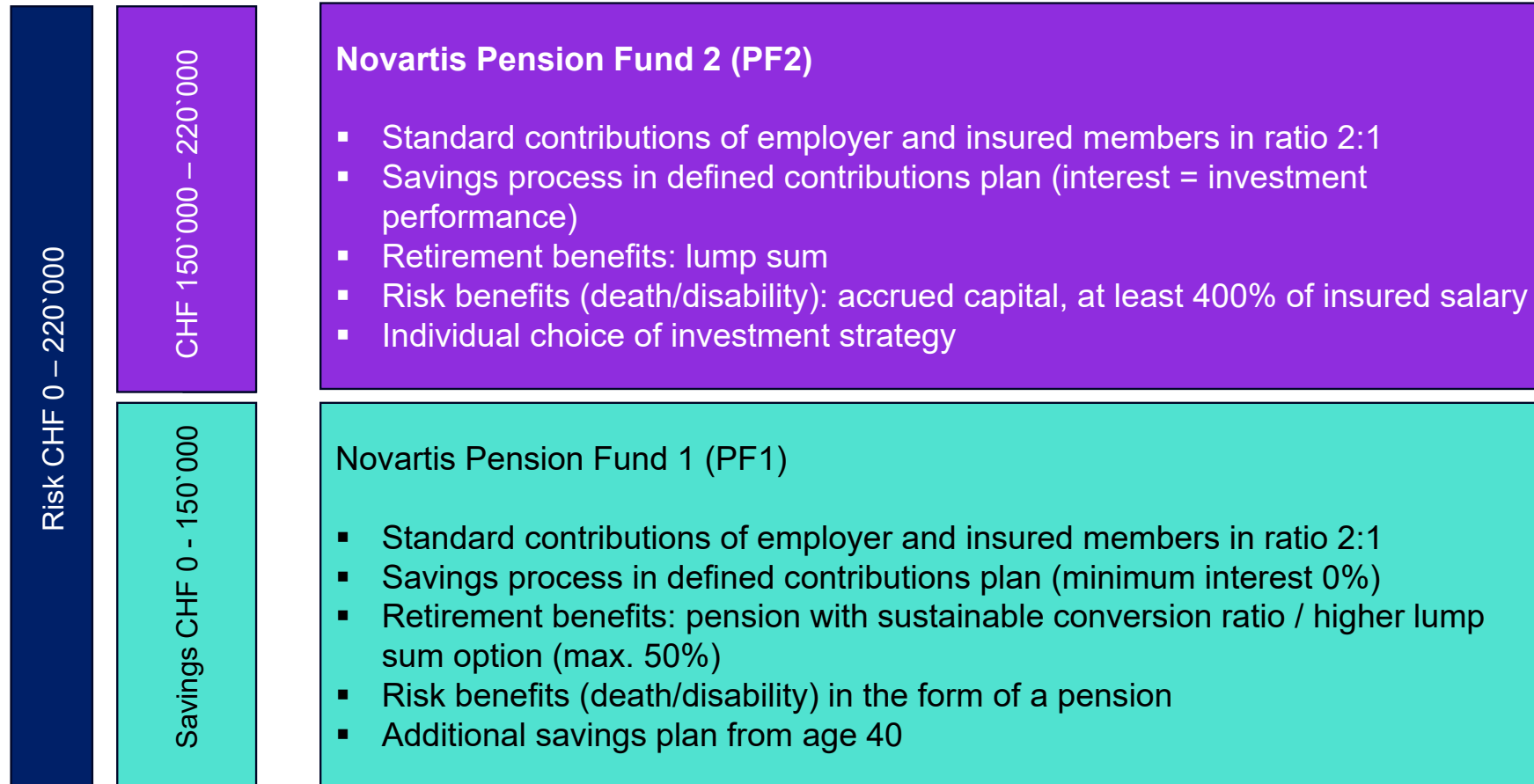
Investment options

Investment strategy: If your insured salary is partly covered in Pension Fund 2, then for your Pension Fund 2 retirement account you can choose from a variety of investment options.

To make this possible, the Novartis Pension Fund had to be split into two separate legal entities, i.e., **the Pension Fund 1 and Pension Fund 2.**

As from January 2016, the **Management Pension Fund** also offers a choice of contribution scales and investment strategies.

The Novartis defined contributions concept at a glance



Three contribution scale to choose from e.g., Novartis Pension Fund 1

Age	Retirement credits (“Standard”) % of insured salary			Standard plus	Standard minus
	Member	Novartis	Total	Member	Member
25-29	4.25	8.50	12.75	6.25	2.25
30-34	4.90	9.80	14.70	6.90	2.90
35-39	5.55	11.10	16.65	7.55	3.55
40-44	6.20	12.40	18.60	8.20	4.20
45-49	7.50	15.00	22.50	9.50	5.50
50-54	8.15	16.30	24.45	10.15	6.15
55-59	8.80	17.60	26.40	10.80	6.80
60-65	9.45	18.90	28.35	11.45	7.45

A further credit of **3.50%** applies to all members aged 40 and over. This is paid into an **additional savings plan** within Pension Fund 1. Half of this amount (i.e., 1.75%) is contributed by Novartis and half by members. Further contributions are paid by members and by Novartis towards **risk benefits** (disability & death).

Asset allocation: 4 basic strategies for selection

		Money Market	Bonds ^{Plus}	Equity 25 ^{Plus}	Equity 40 ^{Plus}
Cash		100%			
		100%			
Fixed income			80.0%	60.0%	45.0%
	Bonds CHF Foreign		10.0%	10.0%	5.0%
	Bonds Global (hCHF)		50.0%	30.0%	30.0%
	Corporate Bonds Global (hCHF)		20.0%	20.0%	10.0%
Equity				25.0%	40.0%
	Equity Switzerland			5.0%	10.0%
	Equity World			17.0%	20.0%
	Equity World (hCHF)				5.0%
	Equity Emerging Markets			3.0%	5.0%
Real Estate			20.0%	15.0%	15.0%
	Real Estate Switzerland		20.0%	15.0%	10.0%
	Real Estate World (hCHF)				
Total		100.0%	100.0%	100.0%	100.0%
FX Exposure		0.0%	0.0%	20.0%	25.0%

New sustainable investment strategy

Background

- The Pension Fund Novartis (PF1) was among the early adopters of the idea to introduce **Environmental, Social & Governance (ESG)** criteria to its investment strategy almost 20 years ago.
- The current ESG guidelines are available on the Pension Funds' website:
https://www.pensionskassen-novartis.ch/E_Anlagerichtlinien.pdf
- With regard to Pension Fund Novartis 2 (PF2), all of the current strategies (Money Market, Bonds Plus, Equity 25 Plus, Equity 40 Plus and LifeCycle Plus) are in conformity with the exclusion list of the **Swiss Association for Responsible Investments (SVVK-ASIR)**.
- In May 2020, we complemented the existing selection with an additional, specifically designed «**ESG Strategy**», sporting similar risk-return characteristics as the Equity 25 Plus investment option.

Sustainable investment strategy

«Equity 25 ESG» as a 5th investment option

- The **UBS AST 2 BVG Equity 25 ESG** investment option joins the existing range of strategies (Money Market, Bonds Plus, Equity 25 Plus, Equity 40 Plus and LifeCycle Plus) as an additional, particularly sustainable variant.
 - The underlying asset classes of the new strategy follow a multiple research screening process in order to make a meaningful contribution to a more sustainable world.
 - The applied sustainability policies exclude certain companies and prefer companies with a high ESG score and with a strong climate awareness
 - ... and seek to vote consistently in line with recognized ESG-principles.
- The new Equity 25 ESG investment option has a very similar **risk/return profile** as the existing Equity 25 Plus strategy,
 - ... with only slightly higher Total expense ratio (TER) and switching costs (dilution levies).

Sustainable investment strategy

«Equity 25 ESG»: Comprehensive policy / approach

Index	ESG Approach				
	Exclusions	Climate focus	Sustainability	ESG voting	GRESB
MSCI Switzerland IMI Socially Responsible	✓		✓	✓	
Equities Global Climate Aware	✓	✓	✓	✓	
MSCI Emerging Markets Socially Responsible	✓		✓	✓	
Global Bonds Climate Aware	✓	✓			
Global Corporate Bonds Climate Aware	✓	✓	✓		
Swiss Real Estate Securities Selection Passive					✓

Climate Focus: Meaningful carbon reduction and aligned to forward-looking carbon reduction targets

Sustainability: Strategies with sustainability/SI policies playing a significant role in the investment process

ESG-Voting: Seek to vote consistently and in line with UBS governance principles across all portfolios

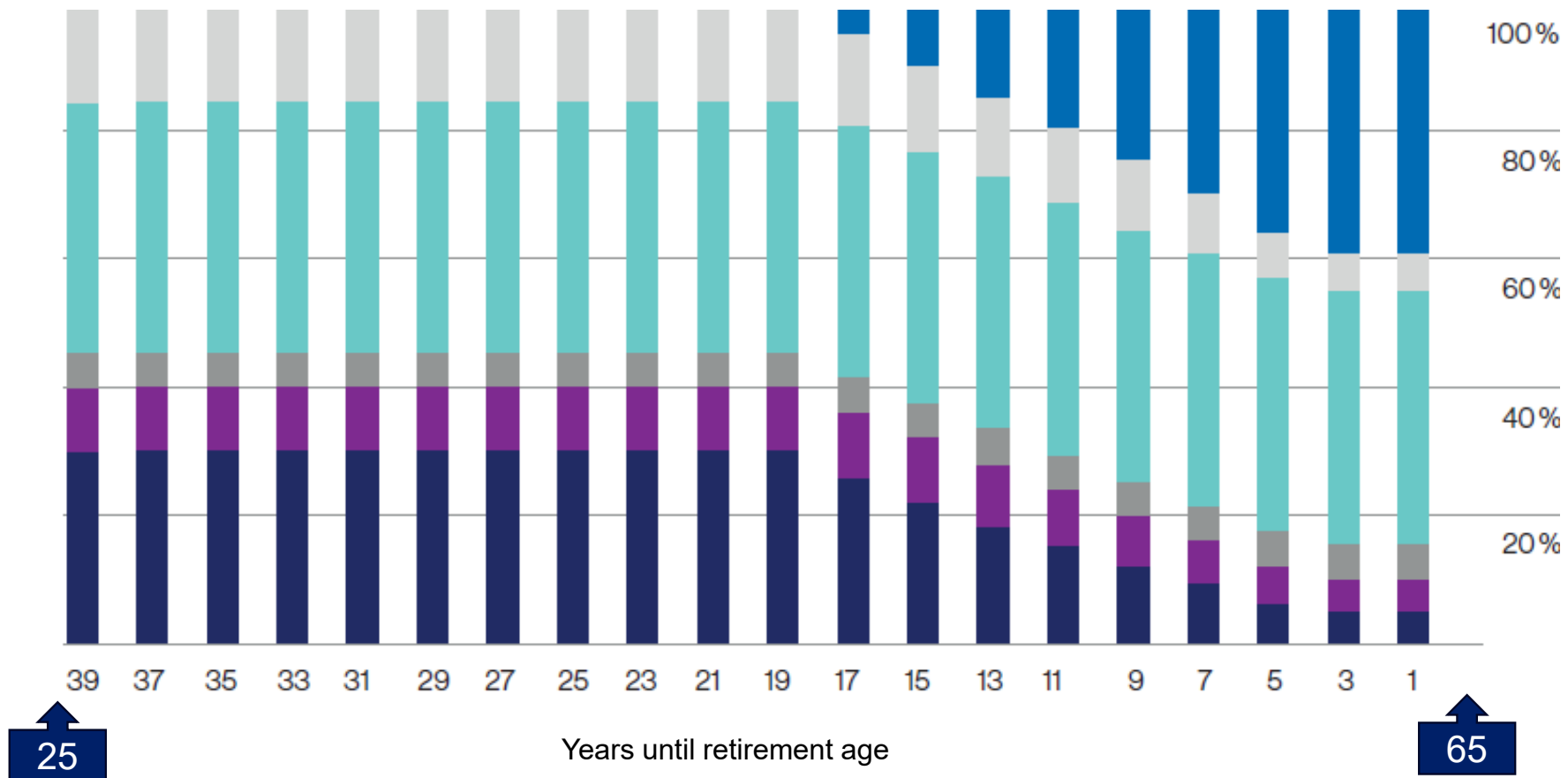
GRESB: Independent organization committed to assessing the environmental, social and governance performance of real estate portfolios across the world. GRESB is now recognized as the leading global sustainability benchmark.

“LifeCycle”- Model as a 6th strategy

- The **LifeCycle** solution works like a kind of “autopilot” that automatically factors in the investment horizon and risk.
- The fundamental concept is based on the assumption that the capacity to cope with investment volatility generally decreases the closer one gets to retirement.
- For this reason, the portion of Equities in the portfolio is gradually reduced.
- In view of a smooth implementation, focus was on **simplicity**:
 - Build-up based on the same indexed funds as already used by PF2 and MPF
 - Favorable pricing conditions
 - Reasonably staggered age-brackets so as not to unnecessarily complicate the setup (5-year “vintages” rather than 1 or 10-year spreads)

“LifeCycle”- Model: The way it works

Glide path management: Gradually reducing risk up to the time of retirement



2.0

Vermögenszentrum (VZ)



VZ VermögensZentrum



Portfolio Strategies for Pension Scheme Assets

Road Show for Novartis Employees

Basel, 14 March 2024 / 17 May 2024

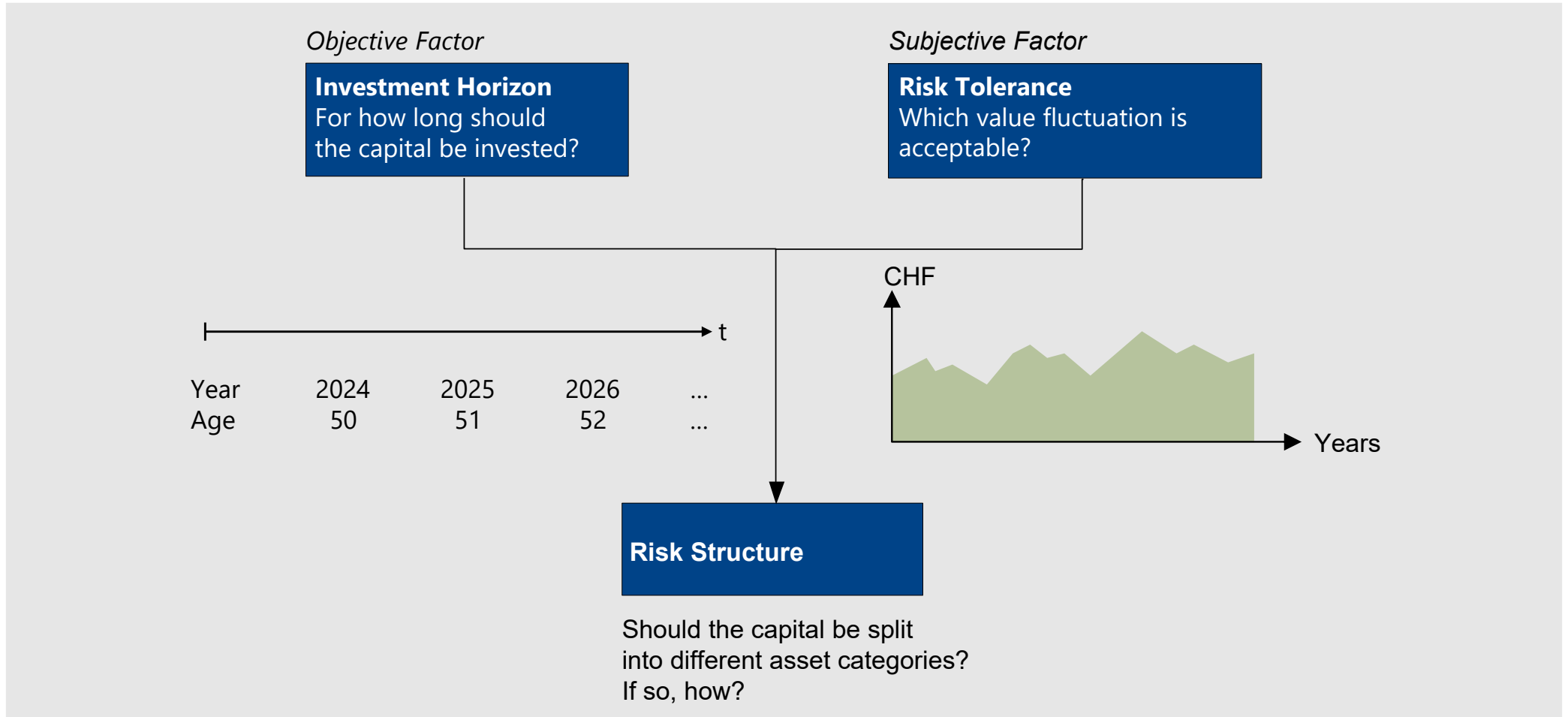
Speaker



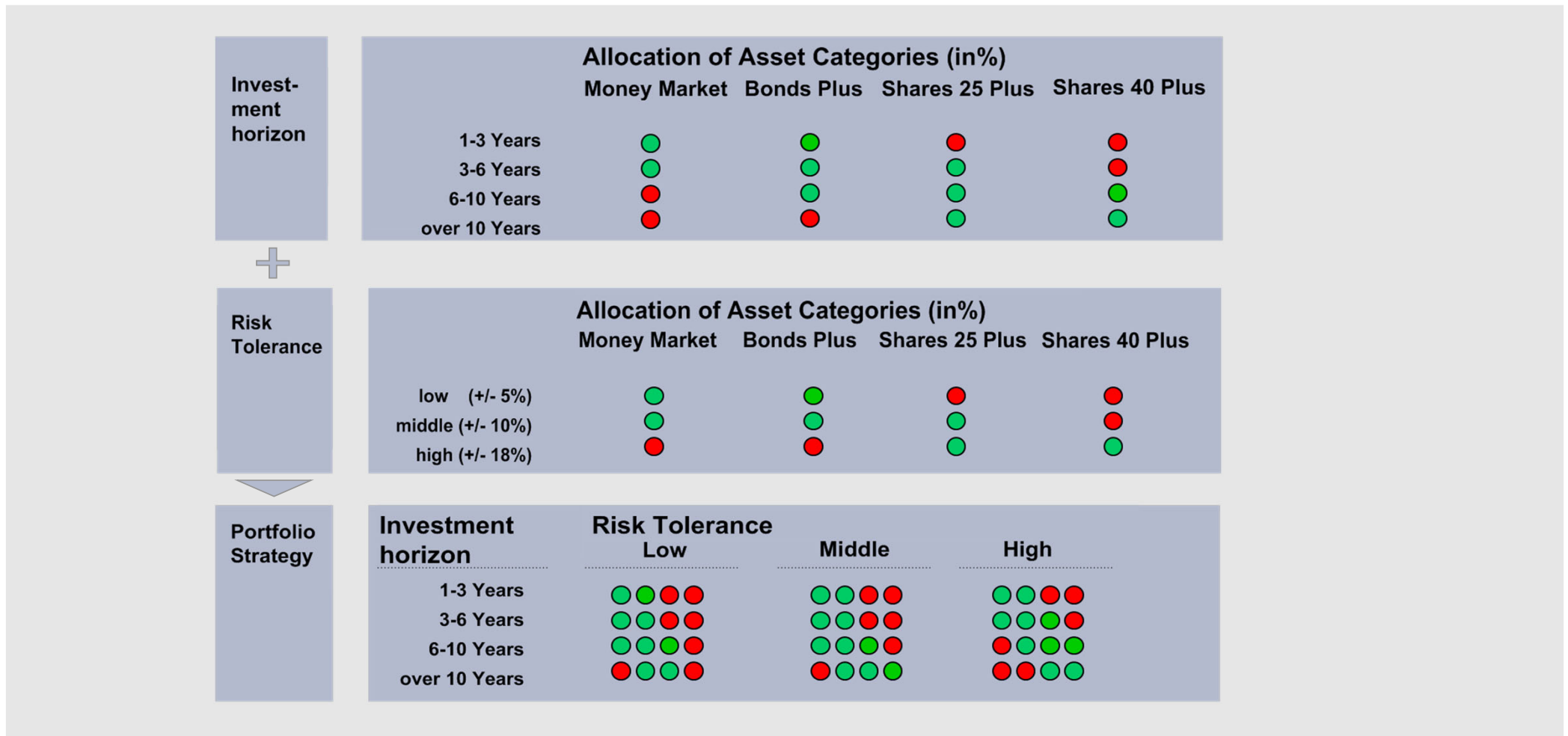
Karl Flubacher, Executive Board Member

Karl Flubacher, MA in Economics and Business Administration, is Associate Partner at VZ VermögensZentrum. He regularly gives public and company-internal seminars. He specializes in sophisticated retirement and inheritance planning strategies.

Definition of Risk Structure



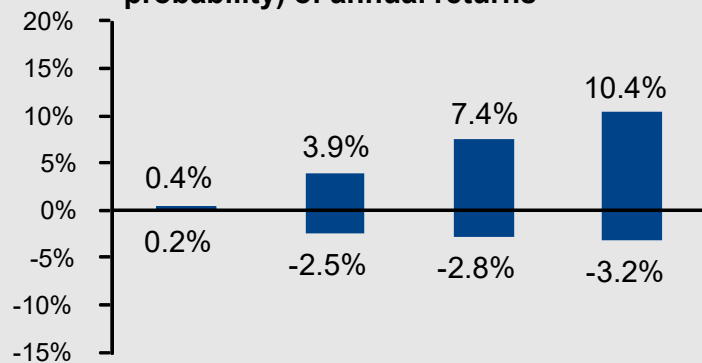
Derivation of the Risk Structure



Expected Return per Portfolio Strategy

Scenario	Strategy	Expected Return	Expected Variation Range		Best Case	Worst Case
I	Money Market	0.3%	0.4%	0.2%	0.5%	0.1%
II	Bonds Plus	0.7%	3.9%	-2.5%	7.1%	-5.7%
III	Shares 25 Plus	2.3%	7.4%	-2.8%	12.5%	-7.9%
IV	Shares 40 Plus	3.6%	10.4%	-3.2%	17.2%	-10.0%

Expected variation range (68% probability) of annual returns



Scenario

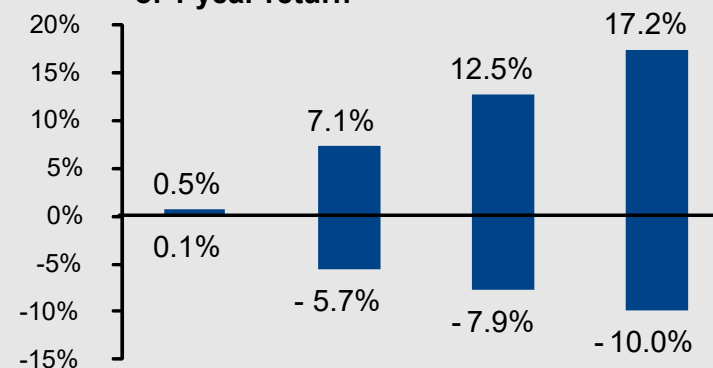
I

II

III

IV

Maximum deviation (95% probability) of 1 year return



Scenario

I

II

III

IV

Impact on Expected Return and Risk

in CHF

Scenario Asset Structure	Expected ¹⁾ Return	Risk Expectancy ²⁾	Expectations ³⁾		Maximum Deviation ⁴⁾	
			Positive	Negative	Best Case	Worst Case
I Money Market	+ 0.3% + 300 CHF	+/- 0.1% +/- 100 CHF	+ 0.4% + 400 CHF	+ 0.2% + 200 CHF	+ 0.5% + 500 CHF	+ 0.1% + 100 CHF
II Bonds Plus	+ 0.7% + 700 CHF	+/- 3.2% +/- 3.200 CHF	+ 3.9% + 3.900 CHF	- 2.5% - 2.500 CHF	+ 7.1% + 7.100 CHF	- 5.7% - 5.700 CHF
III Shares 25 Plus	+ 2.3% + 2.300 CHF	+/- 5.1% +/- 5.100 CHF	+ 7.4% + 7.400 CHF	- 2.8% - 2.800 CHF	+ 12.5% + 12.500 CHF	- 7.9% - 7.900 CHF
IV Shares 40 Plus	+ 3.6% + 3.600 CHF	+/- 6.8% +/- 6.800 CHF	+ 10.4% + 10.400 CHF	- 3.2% - 3.200 CHF	+ 17.2% + 17.200 CHF	- 10.0% - 10.000 CHF
Investment Capital	100.000 CHF					

1) Expected long-term mean return per year

2) Expected fluctuation margin per year, based on standard deviation, viz. in 68% of all cases observed

3) Expected return after one year with standard deviation (68% of all values observed)

4) Expected return after one year with 2 standard deviation (95% of all cases observed)

Expected Returns for Different Investment Horizons

Source: MSCI World Total Return Index (in CHF) for all 1-, 3-, 5-, 8-, 10-, 12- and 15-year time series, from 31 Dec. 1972 until 31 Dec. 2023

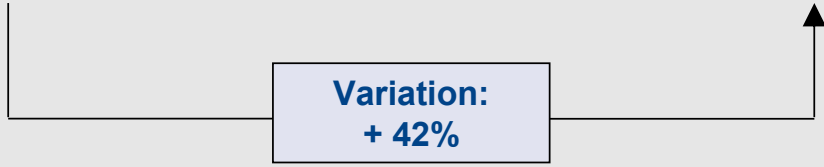
Return p.a.	1 Year	3 Years	5 Years	8 Years	10 Years	12 Years	15 Years	
> 16%	41.2%	22.4%	12.8%	6.8%	4.8%	0.0%	0.0%	
12-16%	3.9%	18.4%	19.1%	11.4%	14.3%	15.0%	16.2%	
8-12%	9.8%	10.2%	23.4%	29.5%	33.3%	37.5%	27.0%	
4-8%	7.8%	18.4%	14.9%	20.5%	23.8%	25.0%	29.7%	
0-4%	5.9%	8.2%	8.5%	20.5%	11.9%	15.0%	24.3%	
< 0%	31.4%	22.4%	21.3%	11.4%	11.9%	7.5%	2.7%	
		27.5%	55.1%	66.0%	81.8%	83.3%	92.5%	97.3%

Since 1972, there have been five 10-year-periods, in which a negative performance appeared. The last one was 2002-2011.

Impact of the Investment Strategy on Assets

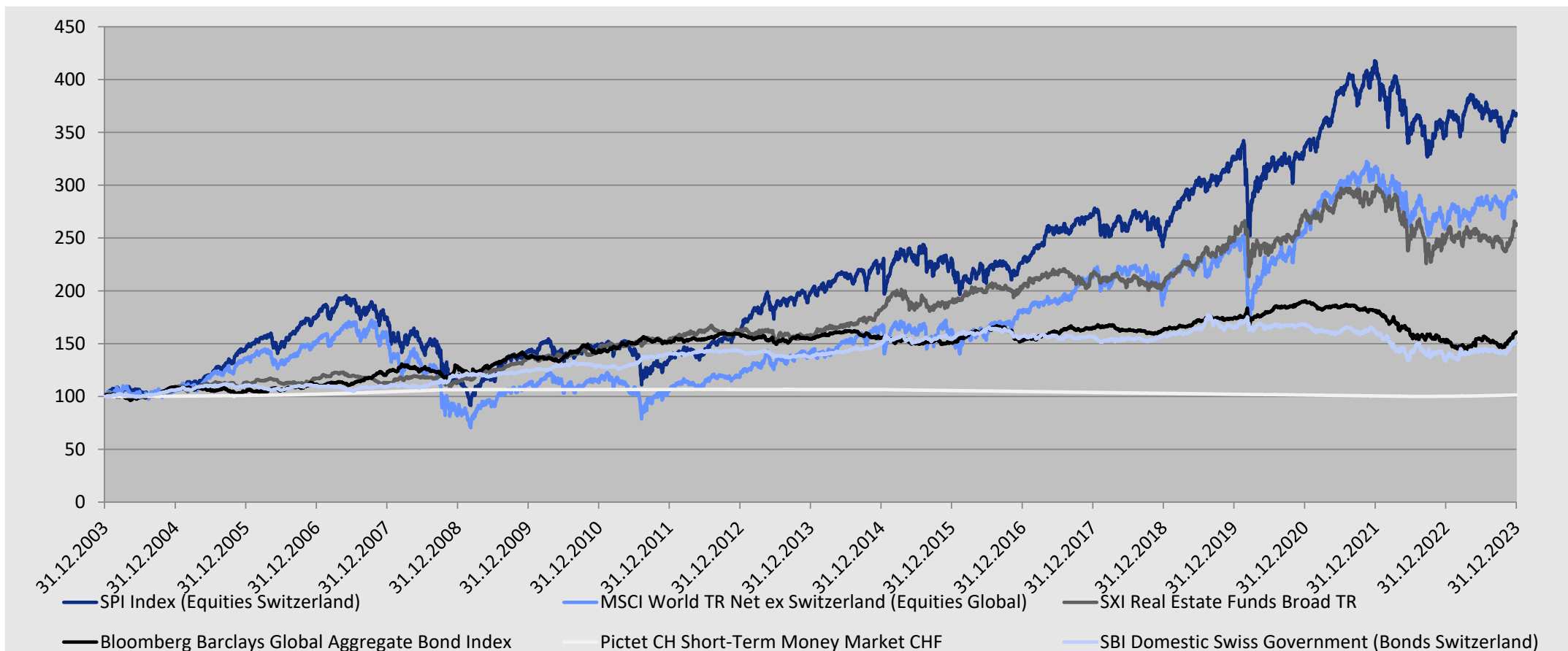
Assumption: Person is 50 years old, income 200.000 CHF; retirement at 65 (in CHF)

Investment Strategy	Money Market	Bonds Plus	Shares 25 Plus	Shares 40 Plus
Old Age Savings (1 June 2024)	100.000	100.000	100.000	100.000
Expected Return	0.3%	0.7%	2.3%	3.6%
Estimated Old Age Savings (30 June 2039)	272.000	283.000	336.000	387.000


Variation: + 42%

Benchmarking

Development of selected indices (from 31 December 2003 to 31 December 2023; in CHF)



Source: Bloomberg

Pension or Lump Sum: Comparison of Criteria

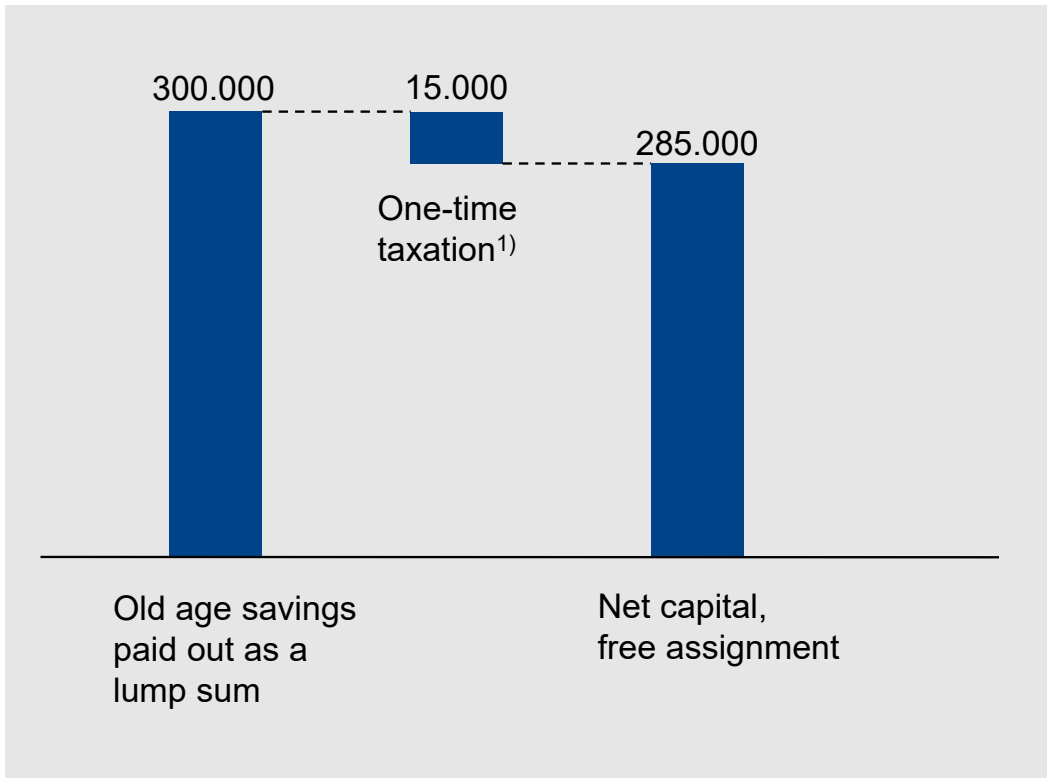
	Pension	Lump Sum
Security	High security	Security depends on asset allocation
Flexibility	No flexibility	High flexibility
Pension	Pay-out according to pension scheme regulations	3-6% return / remuneration, according to income-concept
Taxes		
• Pay-out	Not applicable, no pay-out	Non-recurring taxation 3-11% (BS) Non-recurring taxation 3-10% (BL)
• Pension	Pension 100% taxable	Remuneration (from 0%) up to 100% taxable, according to income-concept
Inflationary Compensation	According to pension scheme	According to individual planning
Coverage widow	60% of old age pension ¹⁾	Up to 100% of income ²⁾
Surviving depend	No entitlement	According to inheritance law, testament

1) Statutory regulation; deviations possible depending on pension scheme

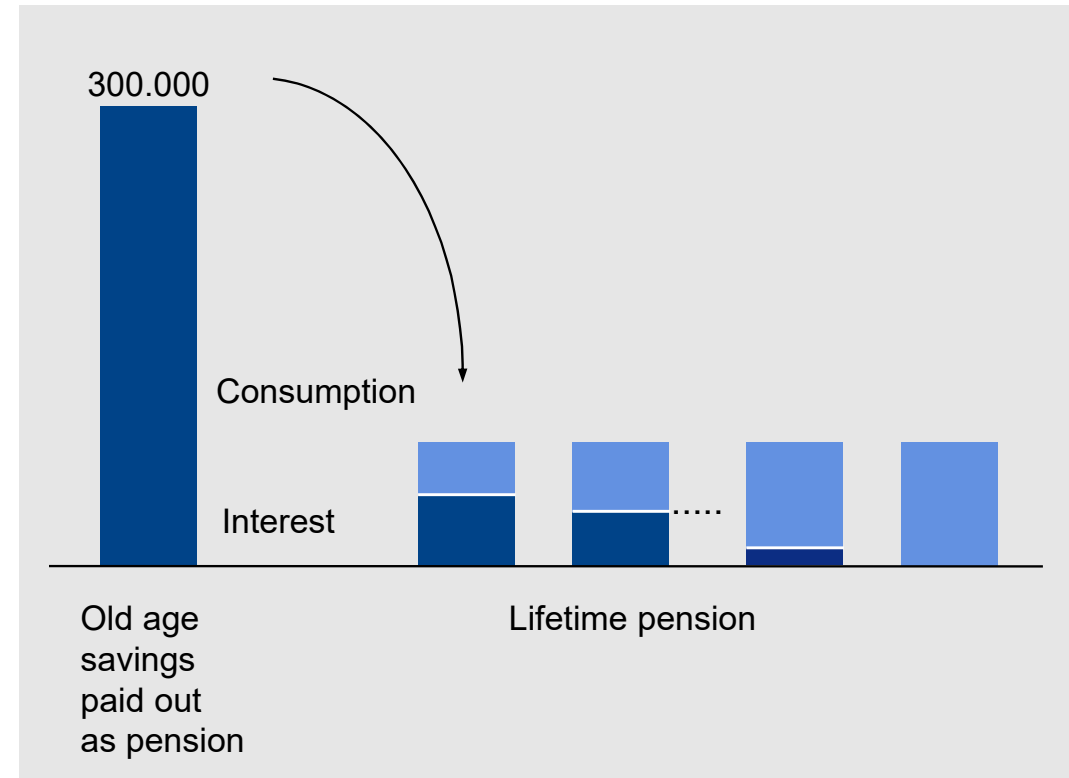
2) On condition of most-favoured treatment for widow / widower

Tax Treatment of Old Age Savings (in CHF)

Lump sum Payment



Lifetime Pension²⁾



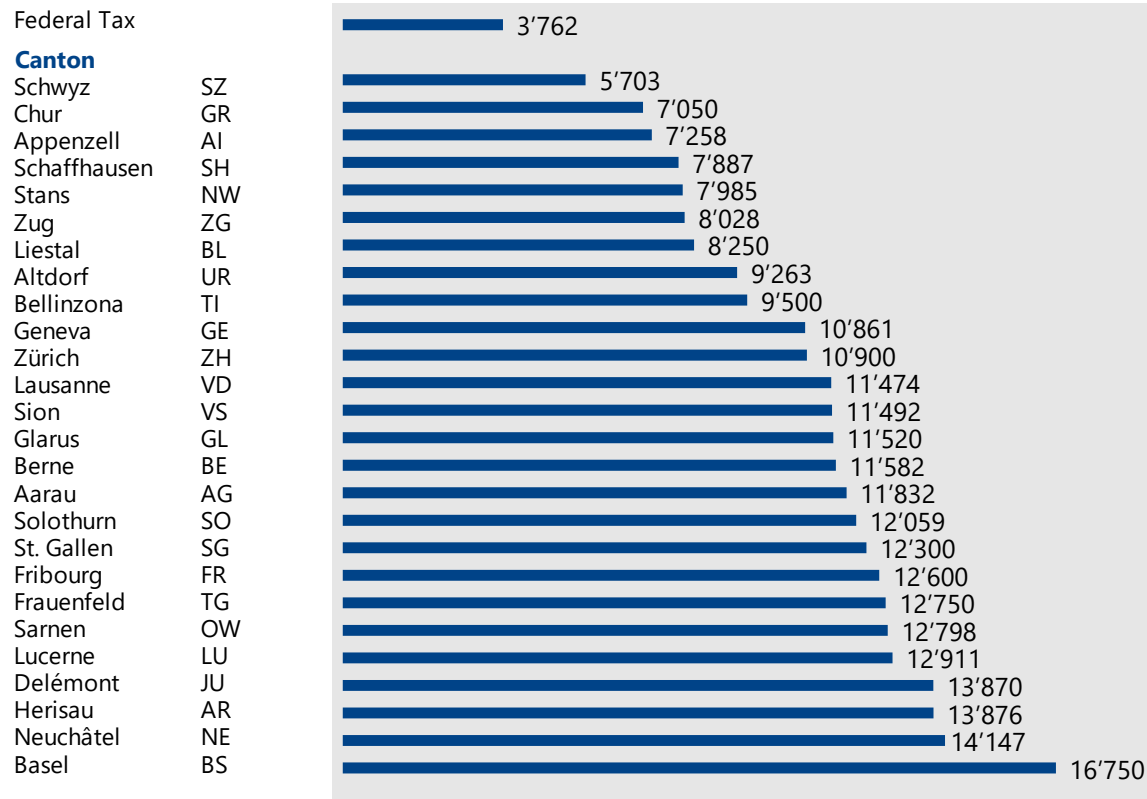
1) Taxation separated from residual income with reduced rate of taxation (cantonal differences)

2) Taxation together with residual income (cantonal differences in income tax rate)

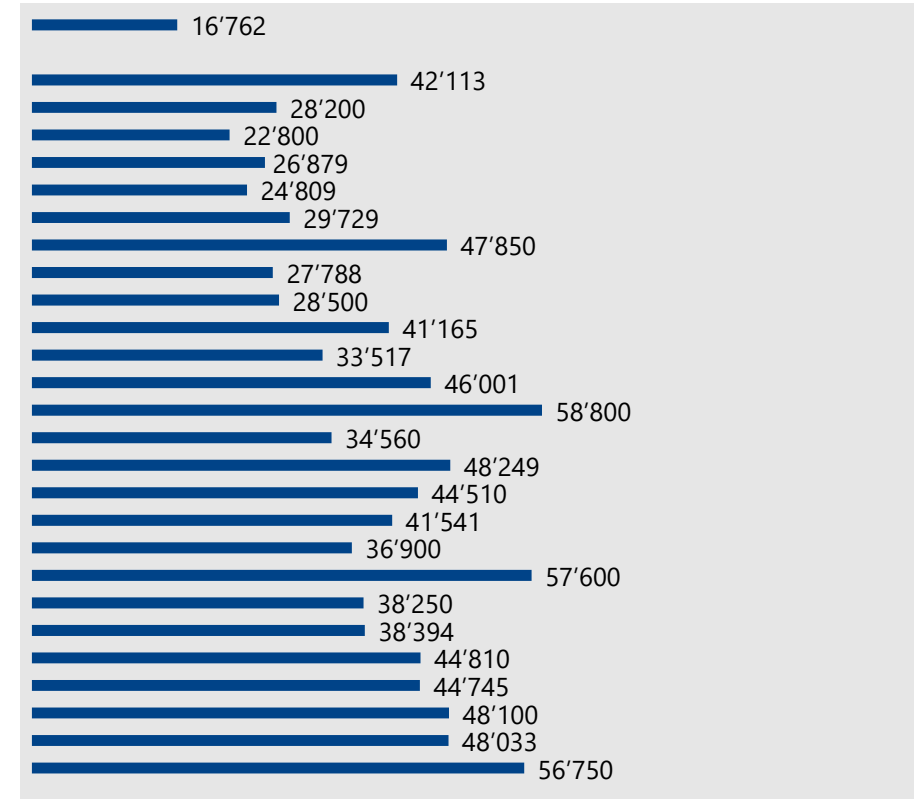
Lump Sum Payment with Domicile in Switzerland

Example: Person is married, 65 years old, domiciled in...

Lump Sum: 250.000 CHF



Lump Sum: 750.000 CHF



Your Questions

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Back up

Novartis Pension Funds

Overview of contributions

Novartis Pension Fund 1

Age	Savings Contribution Retirement Plan ¹		Risk Contribution ²		Additional Savings Plan Contributions ³		Total Contributions	
	Employee ⁴	Employer	Employee	Employer	Employee	Employer	Employee ⁴	Employer
Up to 25	-	-	0.5%	1.0%	-	-	0.50%	1.00%
25-29	4.25	8.50	0.6%	1.2%			4.85%	9.70%
30-34	4.90	9.80	0.6%	1.2%			5.50%	11.00%
35-39	5.55	11.10	0.6%	1.2%			6.15%	12.30%
40-44	6.20	12.40	0.6%	1.2%	1.75%	1.75%	8.55%	15.35%
45-49	7.50	15.00	0.6%	1.2%	1.75%	1.75%	9.85%	17.95%
50-54	8.15	16.30	0.6%	1.2%	1.75%	1.75%	10.50%	19.25%
55-59	8.80	17.60	0.6%	1.2%	1.75%	1.75%	11.15%	20.55%
60-65	9.45	18.90	0.6%	1.2%	1.75%	1.75%	11.80%	21.85%

¹on insured salary PF1 (base salary plus incentive minus social security offset) up to CHF 150k

²on insured salary risk (base salary minus social security offset) up to CHF 220k base salary

³on total insured salary (base salary plus incentive minus social security offset) up to CHF 220k base salary

⁴indicates standard contribution; employees can chose to contribtute 2% more or 2% less

Overview of benefits

Novartis Pension Fund 1

Age	Death	Disability
<p>Lifelong retirement pension</p> <ul style="list-style-type: none"> Conversion rate at age: <ul style="list-style-type: none"> 65: 5.00% 64: 4.85% 63: 4.72% 62: 4.60% 61: 4.48% 60: 4.36% <p>of the accrued retirement plan assets.</p> <ul style="list-style-type: none"> Lump-sum pay-out instead of pension, up to max. 50% possible (time limit 3 months before retirement) <p>Retirement child pension</p> <ul style="list-style-type: none"> 20% of retirement pension up to age 20/25 <p>Available savings plan assets may be</p> <ul style="list-style-type: none"> used to finance a bridging pension until to statutory (AHV) retirement age (temporary retirement pension) or paid out as a one-off retirement lump sum. 	<p>Spouse's or domestic partner's pension for active insured members:</p> <ul style="list-style-type: none"> 60% of insured/current disability pension for retirement pension recipients: 60% of retirement pension or, with the survivor's pension option, 100% of retirement pension <p>Orphan's pension</p> <ul style="list-style-type: none"> 20% of insured or current disability or retirement pension up to age 20/25 <p>Lump sum on death</p> <p>Active insured members:</p> <ul style="list-style-type: none"> 200% of insured disability pension plus accrued savings plan assets plus assets transferred from incentive/bonus and shift insurance on 1.1.2011 plus voluntary extra contributions since 1.1.2011 paid into retirement and savings account minus early withdrawals WEF / divorce transfers minus retirement/disability benefits already paid out 	<p>Disability pension</p> <ul style="list-style-type: none"> 60% of insured salary Risk up to age 65 From age 65 onwards: conversion of accrued retirement assets, based on the current conversion rate (at present 5.00%) <p>Disability child pension</p> <ul style="list-style-type: none"> 20% of disability pension, up to age 20/25 <p>Disability lump sum (with 100% disability)</p> <ul style="list-style-type: none"> Accrued savings plan assets

Overview of contributions

Novartis Pension Fund 2

Age	Savings Contribution ¹		Risk Contribution ²		Total Contributions	
	Employee ³	Employer	Employee	Employer	Employee	Employer
up to 25	-	-	0.4%	0.8%	0.40%	0.80%
25-29	3.50%	7.0%	0.4%	0.8%	3.90%	7.80%
30-34	4.00%	8.0%	0.4%	0.8%	4.40%	8.80%
35-39	4.50%	9.0%	0.4%	0.8%	4.90%	9.80%
40-44	5.00%	10.0%	0.4%	0.8%	5.40%	10.80%
45-49	6.25%	12.5%	0.4%	0.8%	6.65%	13.30%
50-54	6.75%	13.5%	0.4%	0.8%	7.15%	14.30%
55-59	7.25%	14.5%	0.4%	0.8%	7.65%	15.30%
60-65	7.75%	15.5%	0.4%	0.8%	8.15%	16.30%

¹on insured salary PK2 (base salary plus incentive minus CHF 150k) up to 220k base salary

²on insured salary PK2 (base salary plus incentive minus CHF 150k) up to 220k base salary

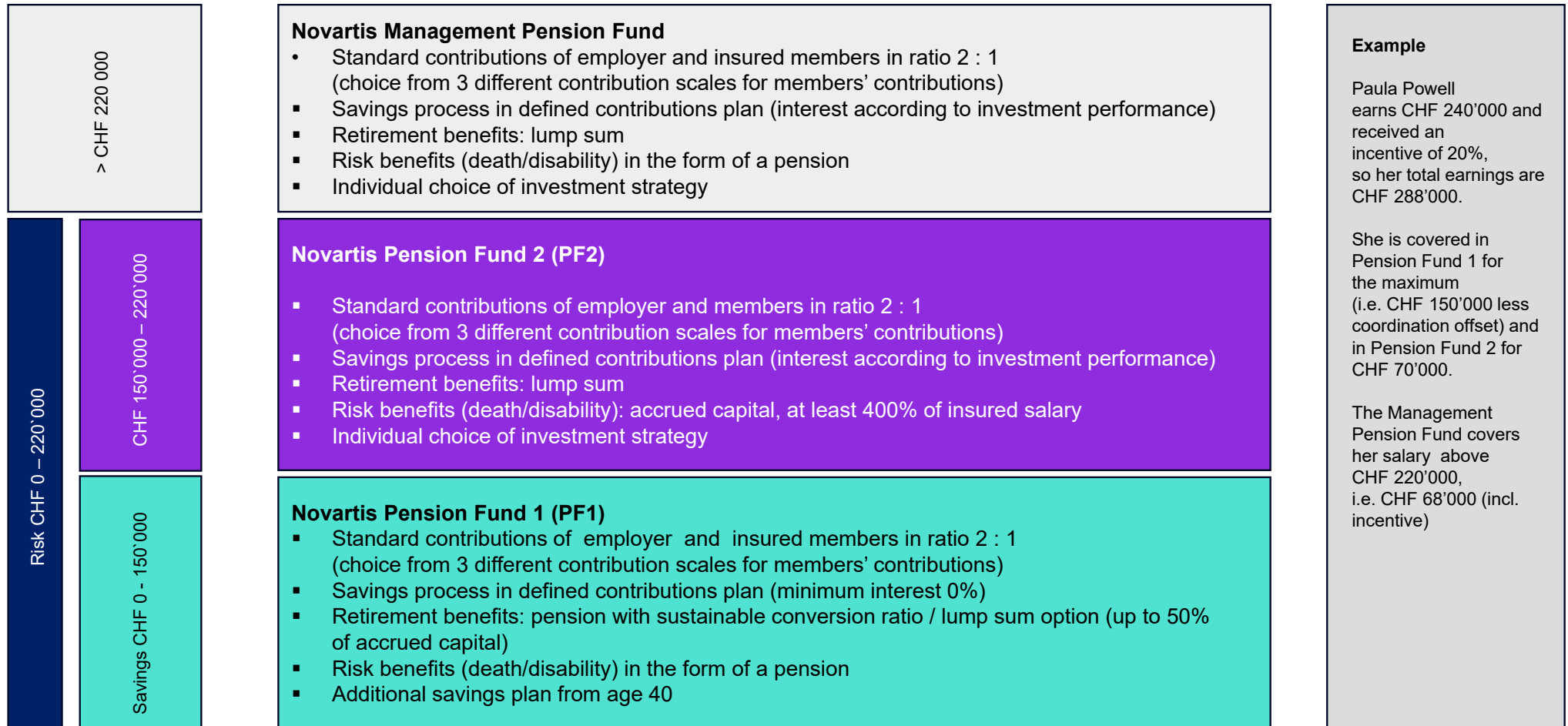
³indicates standard contribution; employees can chose to contribute 2% more or 2% less

Overview of benefits

Novartis Pension Fund 2

Retirement	Death	Disability
Lump sum on retirement <ul style="list-style-type: none">• Assets available at the time of retirement	Todesfallkapital <ul style="list-style-type: none">• Assets available at the time of death,• at least 400% of insured salary	Lump sum on disability <ul style="list-style-type: none">• Assets available at the time when the disability pension starts,• at least 400% of insured salary

Novartis Management Pension Fund: A top-up plan



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Thank You!