Novartis Pension Funds

Guidelines

Novartis Pension Funds – your choice of investment strategy

NOVARTIS | Reimagining Medicine

2020

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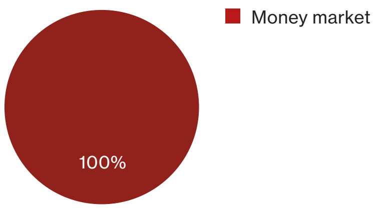
At a glance

- The pension plans of **Novartis Pension Fund 2** and the **Novartis Management Pension Fund** provide you with the option to select the investment of your nonmandatory retirement savings.
- To this end, both **Novartis Pension Fund 2** and the **Novartis Management Pension Fund** offer efficient investment solutions in collaboration with the **UBS Investment Foundation**.
- Choose between an investment option in which you select one of five different strategies by yourself or an investment option that to some extent automatically adapts to your age (LifeCycle model).

Strategies to choose from

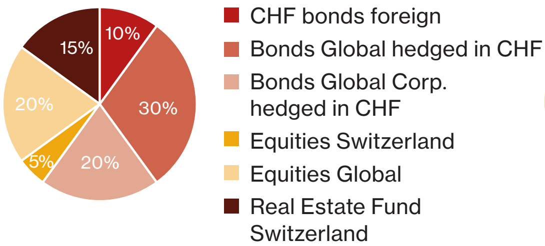
You can determine your **individual strategy** yourself. You have a range of **passive investment strategies** at your disposal depending on the objectives and time horizon of your investment or your personal preference. If you do not (want to) select a particular option, your assets are invested in the Bonds Plus strategy (Pension Fund 2) or in the **LifeCycle** strategy (Management Pension Fund).

Money market strategy

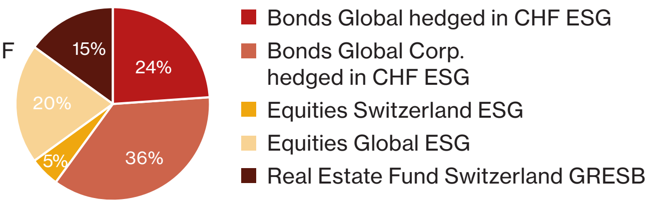


Bonds Plus strategy

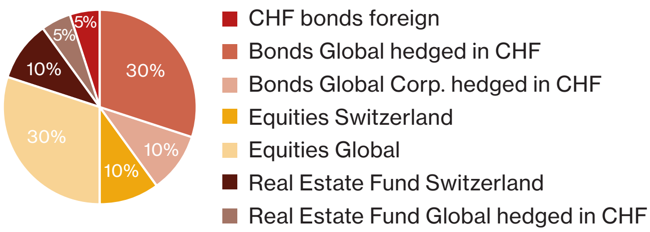
Equities 25 Plus strategy



Equities 25 ESG strategy



Equities 40 Plus strategy



Your optimum risk strategy

The optimum risk strategy is determined by numerous factors:

- Individual factors, such as your investment experience and your financial situation, your personal objectives with regard to this portfolio and also your familiarity with certain investment products.
- Objective factors, such as the time horizon of the investment and the economic situation at the time of investment.

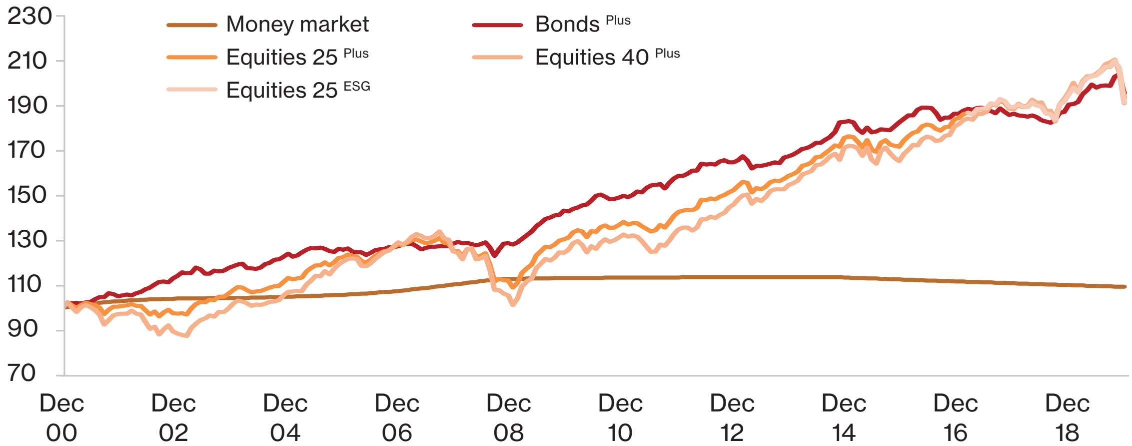
The following chart shows the **investment horizon** (in years to retirement or exit) versus the matching strategy without taking into account your individual appetite for risk.

< 3 years	3–6 years	6–10 years	> 10 years
– **Money market**	– Money market	– Bonds Plus	– Equities 25 Plus / ESG
– Bonds Plus	– **Bonds Plus**	– **Equities 25 Plus / ESG**	– **Equities 40 Plus**
	– Equities 25 Plus / ESG	– Equities 40 Plus	

Rule of thumb: the shorter the investment horizon, the fewer equities in the portfolio

Historical comparison of the five investment strategies

A historical comparison of the five available basic strategies over the last 20 years (Equities 25 ESG since 2017) gives the following picture: as a result of the unusual market situation, the Bonds Plus strategy performed best. This is surprising, since long-term experience shows a different picture: the more equities that were included in an investment strategy, the greater the fluctuations to which they were exposed and at the same time the higher the yields achieved. With regard to the portfolio of an individual beneficiary of the pension fund, the yield may have deviated as a result of various factors (deposits/payouts, etc.).



As the historical performance curves clearly show, the time of deposit and payout plays a very important role for the overall return of an investment strategy. For example, if someone invested in the Equities 40 Plus strategy during the period from November 2007 to March 2009, the loss amounted to –24.52%, whereas the Bonds Plus strategy in the same period gave a 0.63% gain.

Dec. 2000–March 2020	Money market	Bonds Plus	Equities 25 Plus	Equities 25 ESG*	Equities 40 Plus
Cumulative performance	9.34%	96.32%	94.02%	2.53%	91.72%
Performance p.a.	0.47%	3.57%	3.50%	0.89%	3.44%
Risk p.a.		3.01%	4.69%	6.08%	6.20%
Greatest loss		–4.57%	–16.86%	–8.89%	–24.52%
Period of greatest loss		Sept 08–Oct 08	Nov 07–Feb 09	Jan 20–Mar 20	Nov 07–Feb 09
Highest 12-month return	2.86%	13.92%	20.51%	13.03%	24.33%
Lowest 12-month return	–0.78%	–3.27%	–14.78%	–4.81%	–19.43%

Source: UBS Asset Management, April 2020

*since end of May 2017

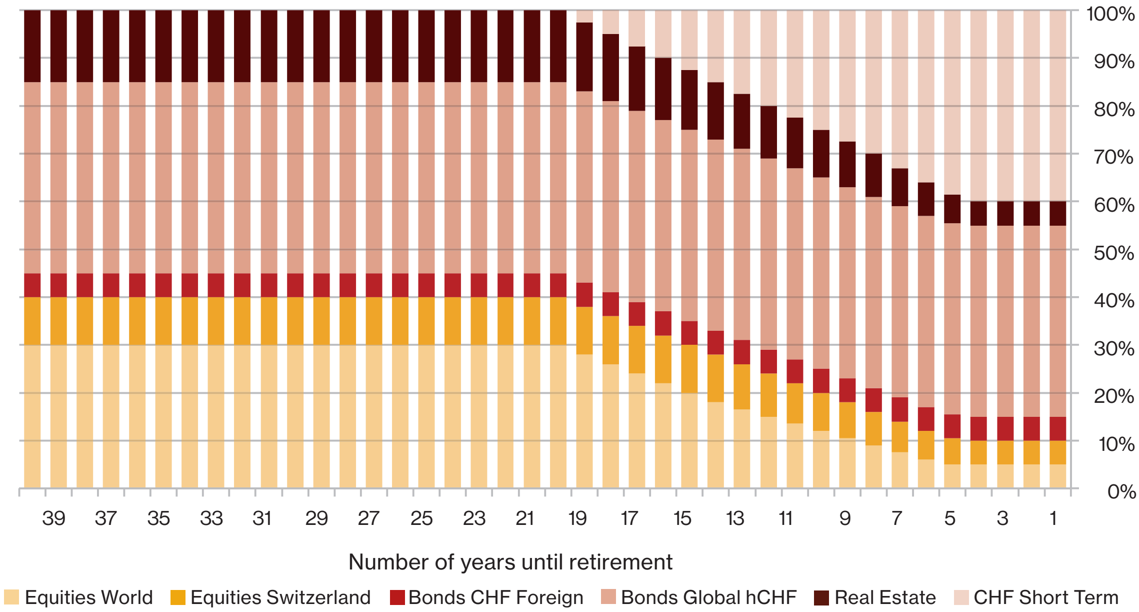
LifeCycle model as 6th strategy option

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 risk tolerance generally decreases the closer one gets to retirement. For this reason, the weighting of equities in the portfolio is gradually reduced – it has now been lowered to 5% Equities Switzerland and 5% Equities World. In the last years before reaching the age of retirement, therefore, the portfolio also includes, along with 5% Real Estate Switzerland, investment categories that are intended to act as “drivers of yield” and at the same time serve to diversify the portfolio.

If you opt for the LifeCycle solution at the age of 25, for example, 40% of the pension assets are invested in equities. Without any action on your part, the equities weighting at the age of 50 will have decreased to just 30%. In the last years before reaching the age of retirement, only 10% of the pension assets are invested in equities, while most of the assets in invested in bonds.

But bear in mind that the investment horizon is also influenced by personal circumstances, such as early retirement, a change of job or a planned early withdrawal for home ownership purposes. This also needs to be considered when choosing the investment strategy that matches your needs.

Glide path management: gradual risk reduction until retirement age



Source: UBS Asset Management. Indicative glide path for illustration purposes. It may differ from the actual glide path.

Sustainability

All strategies (Money Market, Bond ^{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). Furthermore, there is the Equity 25 ^{ESG} strategy, sporting similar risk-return characteristics as the classic Equity 25 ^{Plus} investment option but designed to make a meaningful contribution to a more sustainable world. The underlying sustainability policies take into account the contribution of companies to a low-emission economy both in the composition of the portfolio and through active engagement with those companies that need to adapt their business models most in order to achieve climate targets. Preference is generally given to companies with a high Environmental, Social & Governance (ESG) standard and climate awareness. In addition, voting rights are consistently exercised in accordance with recognized ESG principles.

Contact

If you have any questions or require any further explanations, please do not hesitate to contact the Pension Fund team.

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