

# New Climate Strategy

## Statement by the Board of Trustees of Novartis Pension Fund 1

The new climate strategy, which becomes effective in 2022, seeks to align the investment activity of the Novartis Pension Fund 1 with the objective of the Paris Agreement, in line with the best available science. Capital allocation and stewardship will be employed to reduce greenhouse gas emissions financed by the Fund's equity, corporate bond, and real estate investments. Also, the Pension Fund will join the *UN-convened Net-Zero Asset Owner Alliance*, an initiative of like-minded institutional investors under the umbrella of the United Nations Environment Programme Finance Initiative.

### Portfolio decarbonization

The Pension Fund commits to a reduction of net greenhouse gas emissions of 50% by 2030 compared to the base year 2019. This applies to emissions financed by the Fund's equity, corporate bond, and real estate investments<sup>1</sup>. According to the International Panel on Climate Change, global warming can be limited to 1.5°C by reducing net carbon dioxide emissions to zero by around 2050, and by reducing net emissions of all other greenhouse gases to zero by around 2070, provided emissions decline by at least 50% over the coming decade<sup>2</sup>.

As greenhouse gas emissions present a major climate-related financial risk to many investments, their reduction is also expected to be beneficial for the long-term returns, and to lower downside risks.

### Climate solutions

The Pension Fund seeks to enable the eventual replacement of fossil fuels (and other sources of greenhouse gas emissions) by allocating more funds to economic activities that provide so-called climate solutions (renewable energy, energy efficiency etc.). To this end, every effort is made to raise the equity allocation to climate solutions revenues above the global equity market benchmark (MSCI World). Within the Fund's bond portfolio, green bonds have a 15% target allocation. Within the asset class of infrastructure investments, renewable energy production & distribution sees a 15% target allocation, as well.

### Stewardship

The Pension Fund aims to encourage its investee companies to adopt and implement net zero targets and to limit their future greenhouse gas emissions in line with the guidance of the International Panel on Climate Change. To this end, a climate voting policy shall be instituted for directly managed equities<sup>3</sup>. External equity managers are encouraged to adopt similar voting policies.

Investor dialogue with the world's heaviest emitters of greenhouse gases plays a key role to promote the adoption of net zero targets, and the Pension Fund intends to achieve effective engagement through a support membership of *Climate Action 100+*.

1 For equities and corporate bonds, targets may be expressed as GHG Scope 1+2 emissions relative to revenues (emission intensity) and/or as emissions relative to enterprise value (financed emissions); for real estate, emissions relative to square meter is a more relevant measure.  
2 IPCC Assessment Report 5 (2014) and Assessment Report 6 (forthcoming in 2022).  
3 Most relevant equity holdings measured by portfolio weight and/or targeted by *Climate Action 100+*.

### **Transparency**

The Pension Fund will publish key climate metrics of its portfolio on its public website, including a (still to be determined) measure of the “climate alignment” of relevant asset classes. The publicly available PRI Transparency Report contains further information on the Fund’s climate strategy, and it will also report on its progress to net zero to the *UN-convened Net-Zero Asset Owner Alliance*.