

Novartis Pension Funds



© Novartis Pension Funds 2018

# Annual Report 2021

 NOVARTIS

## Purpose and Organization

The *Novartis Pension Fund 1* with more than 25 900 insured members and retirees and assets worth CHF 14.6 billion is one of the largest autonomous pension organizations in Switzerland. It is joined by the *Novartis Pension Fund 2* with assets of CHF 655 million, and the *Management Pension Fund* with assets amounting to CHF 409 million.

As the recently published 2021 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 – in the meantime

completed – *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 -0.78% in the "low-risk" money market strategy to 8.60% in the strategy with an equity portion of 40%. The especially sustainable investment strategy "Equities 25 ESG", which was introduced in the previous year, achieved 4.70%. Overall, the performance of all strategies amounted to 3.22%. 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.

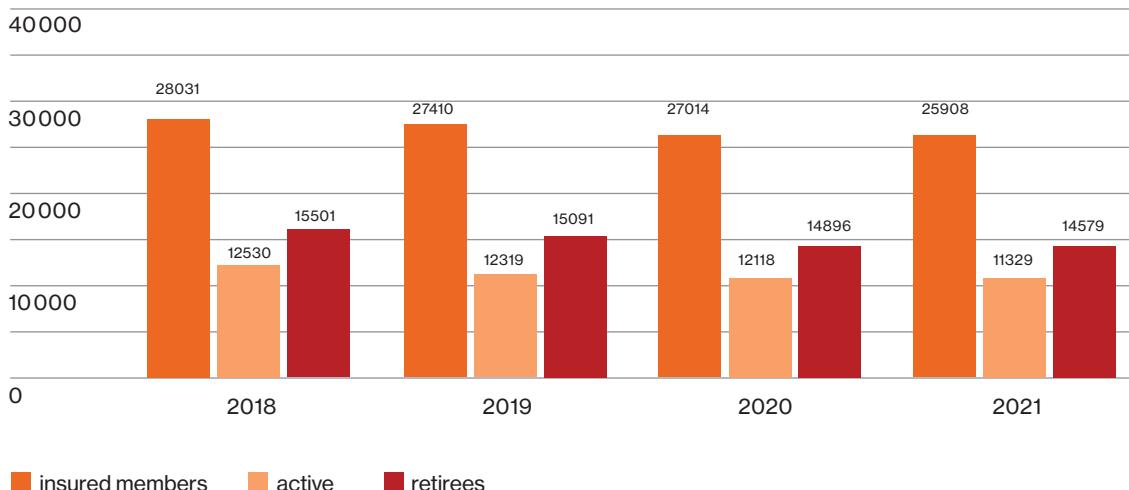
### **Organization *Novartis Pension Fund 1* (as of December 31, 2021)**

<b>Board of Trustees</b> (Period of office from January 1, 2021 until December 31, 2024)	<b>Management</b> Dr. Markus Moser, <i>Managing Director</i> Marco Armellini, <i>Deputy Managing Director</i>
<b>Employer's Representatives</b> Daniel Weiss ( <i>Chairperson</i> ) Dr. Thomas Boesch Dr. Bertrand Bugnon Isabelle Defond Felix Eichhorn Dr. Matthias Leuenberger Dr. Christian Rehm	<b>Statutory Auditor</b> PricewaterhouseCoopers AG, Basel
<b>Employees' Representatives</b> Davide Lauditi ( <i>Deputy Chairperson</i> ) Claudio Campestrin Ralf Endres Andrea Fedriga-Hägeli Eliana Mussin Birgit Schmid Clarissa Vajna	<b>Actuary</b> Libera AG, Zurich
<b>Retirees' Committee</b> Gilbert Fahrni, Reinach Rudolf Haas, Basel Daniel Linder, Basel	<b>Statutory Inspectorate</b> 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 2021, there were 11 329 (previous year: 12 118) actively insured members compared with 14 579 (previous year: 14 896) retirees, of whom 9 282 had reached retirement age, 336 were drawing a disability

pension, and 4 532 were drawing a widow(er)'s pension. Orphans' and children's pensions accounted for a further 429 current pensions. The average current pension income amounted to CHF 40 555 (previous year: CHF 40 638).



## Annual Statement for 2021

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:

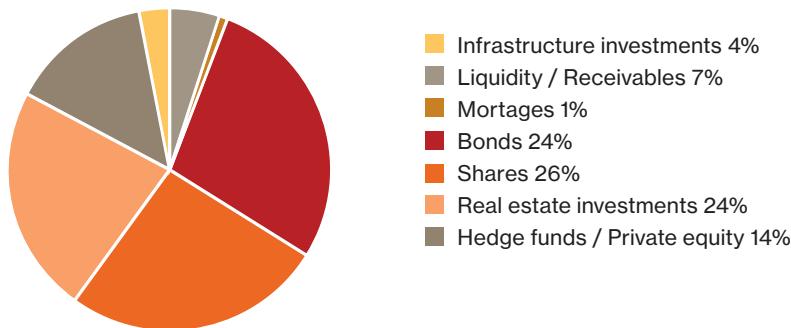
Income (CHF millions)	2021	2020
Employee contributions	112	118
Employer contributions	193	203
Joining fees and follow-up funding	106	117
Deposits on take-over of insured members	9	17
Earnings from investments	69	80
Realized gains from investments	251	656
<b>Total income</b>	<b>740</b>	<b>1191</b>
Expenditure (CHF millions)	2021	2020
Pension payments	-606	-619
Lump-sum payments	-43	-40
Portable sums, home ownership payments	-331	-222
Administrative costs	-4	-4
Diverse	-14	-17
<b>Total expenditure</b>	<b>-998</b>	<b>-902</b>
Net cash flow	-258	289
Cumulative change in asset values	+714	
Change in fund value	+456	

Based on the result from cash flows (CHF -258 million) and taking into account the cumulative change in value of the assets (+714 million), the overall increase in the Fund's value in 2021 amounted to CHF 456 million.

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

<b>Assets (CHF millions)</b>	<b>31.12.2021</b>	<b>31.12.2020</b>
Liquidity deposits	<b>976</b>	882
Receivables	<b>17</b>	21
Bonds	<b>3 543</b>	3 791
Shares	<b>3 765</b>	3 877
Hedge funds and private equity	<b>2 058</b>	1 845
Infrastructure investments	<b>580</b>	426
Mortgages	<b>60</b>	72
Real estate investments	<b>3 575</b>	3 182
Currency overlay	<b>37</b>	136
Collateral	<b>-39</b>	-116
<b>Total assets</b>	<b>14 572</b>	14 116
<b>Obligations and deferrals</b>	<b>-53</b>	-70
<b>Net fund value</b>	<b>14 519</b>	14 046

The composition of assets breaks down as follows:



<b>Liabilities (CHF millions)*</b>	<b>31.12.2021</b>	<b>31.12.2020</b>
Actuarial reserve and technical accruals	<b>11 512</b>	11 963
Fluctuation reserves	<b>2 141</b>	1 627
Free funds	<b>866</b>	456
<b>Total liabilities</b>	<b>14 519</b>	14 046

\* Not including obligations and deferrals

The assets are compared with the required *actuarial reserve* and technical accruals of CHF 11 512 million as per 31 December 2021, 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 associ-

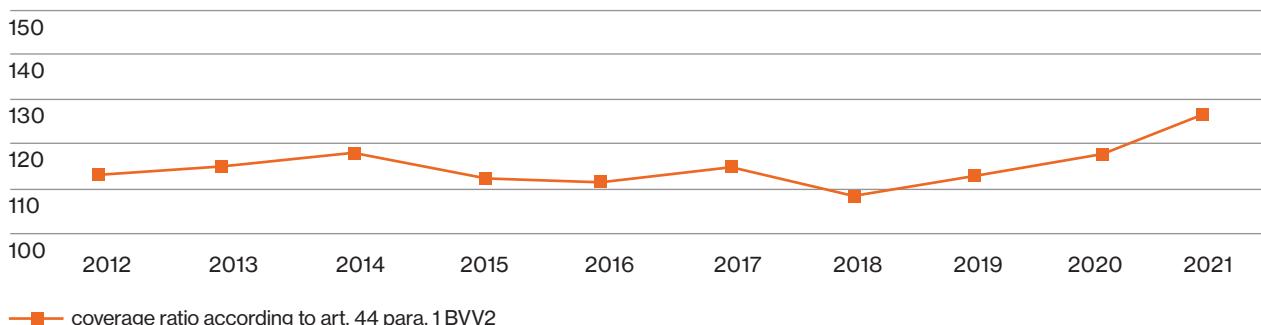
ated with these assets so that the Pension Fund retains its ability to handle financial risk.

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 126.1 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. 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 2022. 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 2012–2021, in %



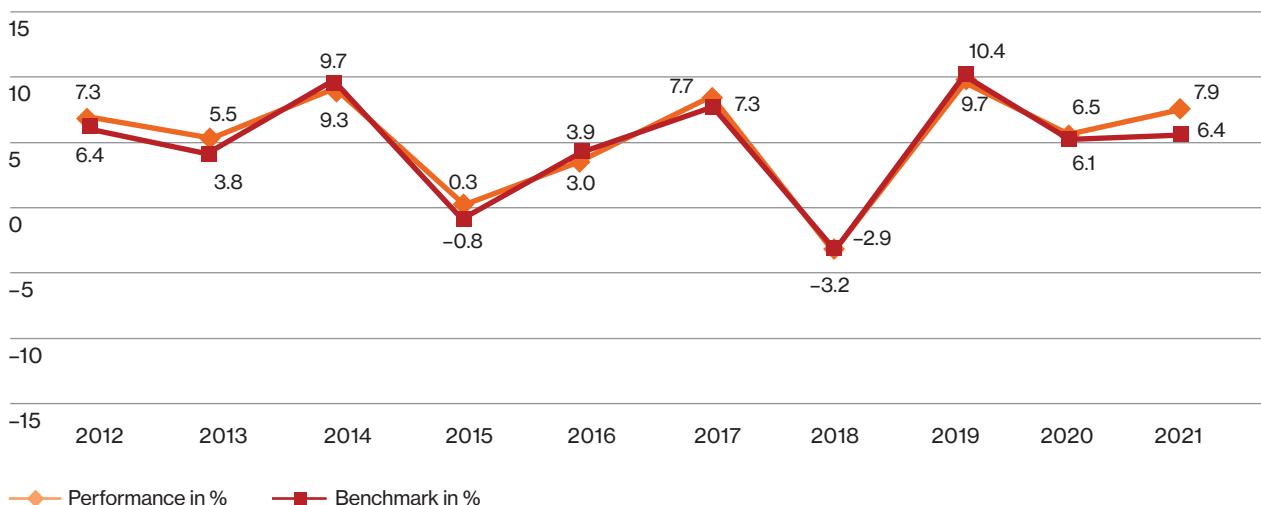
### Performance 2021

The global equity rally continued well into Q3, supported by robust corporate earnings, and continued monetary policy support. After equity markets hit record highs in August, new concerns about growth and central bank policies began to cloud investor sentiment in September. The final quarter parallels the situation at the end of the previous year, as equities, particularly in the developed world, once again hit record highs despite the rapid spread of a new Covid 19 variant, although some emerging markets, including China, ended the year in negative territory. As a result of

higher-than-expected inflation, US interest rates in particular rose sharply in the year under review, which in turn led to negative returns in most bond markets. Equities again proved to be the strongest asset class with a gain of 17.85% since the beginning of the year, followed by infrastructure investments (14.80%), hedge funds (8.99%) and real estate (8.24%). Bonds showed a slightly improved, but still negative overall return of -1.36% compared to the first quarter. The relative strength of the Swiss franc had a negative impact on foreign currencies (-0.53%).

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

performance for Pension Fund 1 was up by 7.89%, exceeding the benchmark (6.36%) by 153 base points.



**Would you like more information?**

As a member of the Novartis Pension Funds, you may obtain the detailed Annual Report for 2021 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 2022

Markus Moser / Thierry Beck-Wissmann