



Novartis Pension Funds

Annual Report 2023

Purpose and Organization

The *Novartis Pension Fund 1* with 24 541 insured members and retirees and assets worth CHF 13.1 billion is one of the largest autonomous pension organizations in Switzerland. It is joined by the *Novartis Pension Fund 2* with assets of CHF 590.9 million, and the *Management Pension Fund* with assets amounting to CHF 410.2 million.

As the recently published 2023 Annual Reports show, the Novartis Pension Funds held their ground in a demanding investment environment and are ready to meet present and future challenges. Not least among

these are the changes resulting from the *Sandoz spin-off* and the announced restructuring measures. Given the number of employees affected by these transactions, the Novartis Pensions Funds 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 1.23% in the "low-risk" money market strategy to 5.66% in the "Equities 40" investment strategy which was introduced in the year before last. Overall, the performance of all strategies amounted to 4.35%. By the end of the year, around 40% 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.

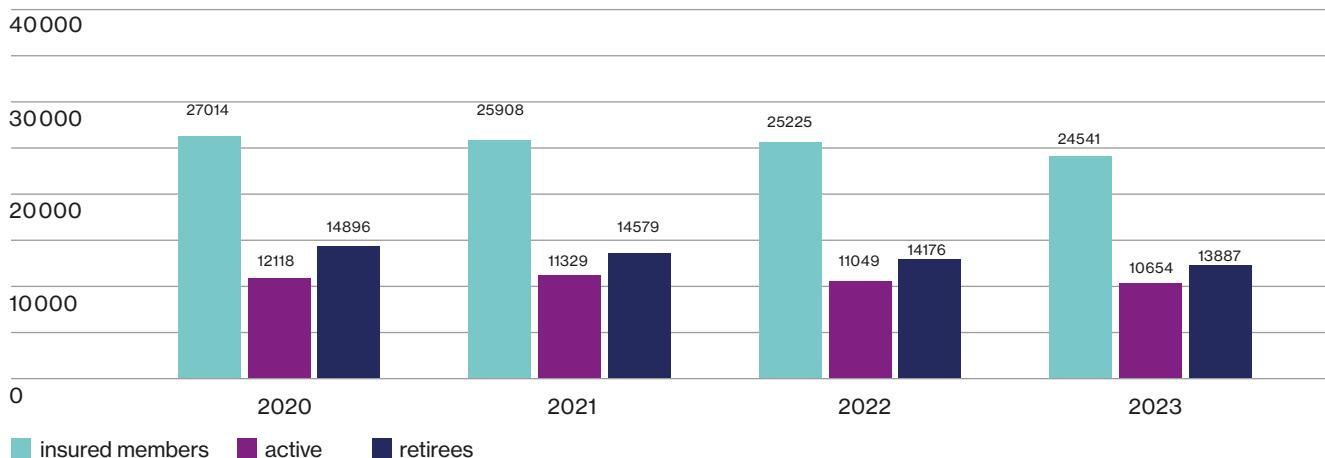
Organization Novartis Pension Fund 1 (as of December 31, 2023)

Board of Trustees (Period of office from January 1, 2021 until December 31, 2024)	Management Marco Armellini, Managing Director Dr. Markus Moser, Deputy Managing Director
Employer's Representatives Daniel Weiss (Chairperson) Dr. Bertrand Bugnon Isabelle Defond Riet Grond Dr. Matthias Leuenberger Dr. Christian Rehm Ruth Schuchter	Statutory Auditor KPMG AG, Bern
Employees' Representatives Davide Lauditi (Deputy Chairperson) Claudio Campestrin Ralf Endres Andrea Fedriga-Hägeli Brigitte Martig Eliana Mussin Clarissa Vajna	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 2023, there were 10 654 (previous year: 11 049) actively insured members compared with 13 887 (previous year: 14 176) retirees, of whom 8 799 had reached retirement age, 302 were drawing a disability

pension, and 4 329 were drawing a widow(er)'s pension. Orphans' and children's pensions accounted for a further 457 current pensions. The average current pension income amounted to CHF 40 281 (previous year: CHF 40 501).



Annual Statement for 2023

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

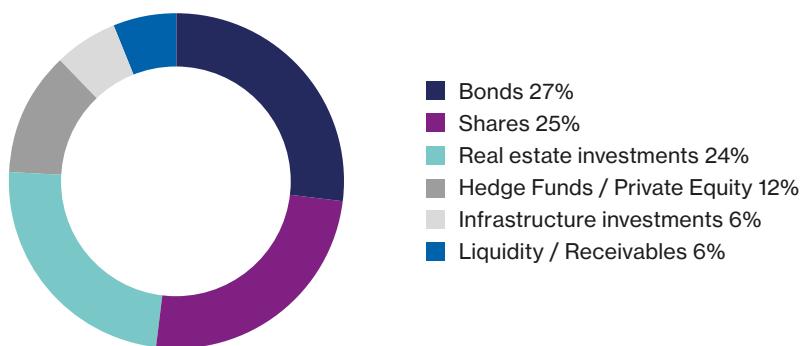
Income (CHF millions)	2023	2022
Employee contributions	113	116
Employer contributions	196	200
Joining fees and follow-up funding	117	104
Deposits on take-over of insured members	2	1
Earnings from investments	68	68
Realized gains from investments	444	0
Diverse	21	3
Total income	961	492
Expenditure (CHF millions)	2023	2022
Pension payments	-575	-591
Lump-sum payments	-45	-36
Portable sums, home ownership payments	-263	-209
Realized losses from investments	0	-61
Administrative costs	-5	-5
Total expenditure	-888	-902
Net cash flow	73	-410
Cumulative change in asset values	-139	
Change in fund value	-66	

Based on the result from cash flows (CHF +73 million) and taking into account the cumulative change in value of the assets (-139 million), the overall decrease in the Fund's value in 2023 amounted to CHF 66 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)	31.12.2023	31.12.2022
Liquidity deposits	729	683
Receivables	14	12
Bonds	3 479	3 110
Shares	3 287	3 186
Hedge funds and private equity	1 588	1 864
Infrastructure investments	804	734
Real estate investments	3 144	3 518
Currency overlay	240	134
Collateral	-202	-92
Total assets	13 083	13 149
Obligations and deferrals	-92	-63
Net fund value	12 991	13 086

The composition of assets breaks down as follows:



Liabilities (CHF millions)*	31.12.2023	31.12.2022
Actuarial reserve and technical accruals	11 308	11 418
Fluctuation reserves	1 679	1 664
Free funds	4	4
Total liabilities	12 991	13 086

* Not including obligations and deferrals

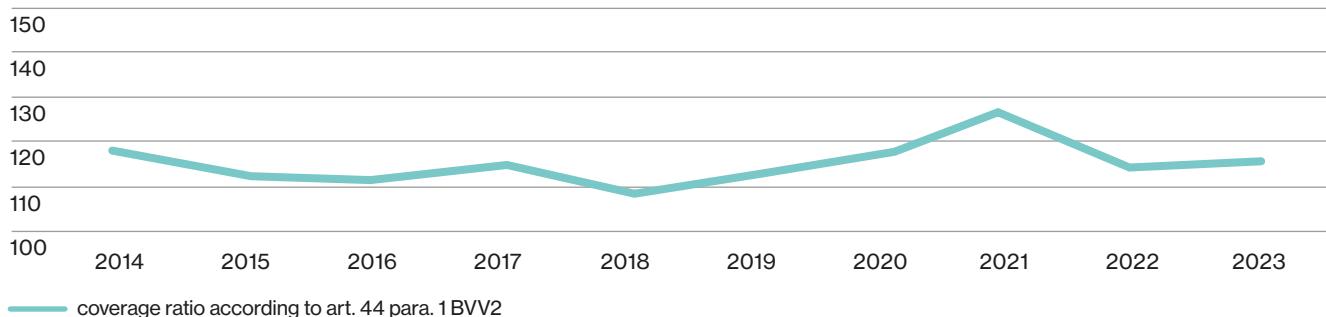
The assets are compared with the required *actuarial reserve* and technical accruals of CHF 11 308 million as per 31 December 2023, calculated in accordance with recognized actuarial principles based on art. 53 para. 2 BVG. In addition to these liabilities, there are fluctuation reserves set aside for 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 114.9%. This means that the fluctuation reserves are below their target level and that the capacity of Novartis Pension Fund 1 to manage financial risk within the framework of its strategic asset allocation is therefore restricted. At the same time, there are no further free funds available. 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 low interest rate levels that have persisted for years and the continuously rising life expectancy.

Development of Funding ratio 2014–2023, in %



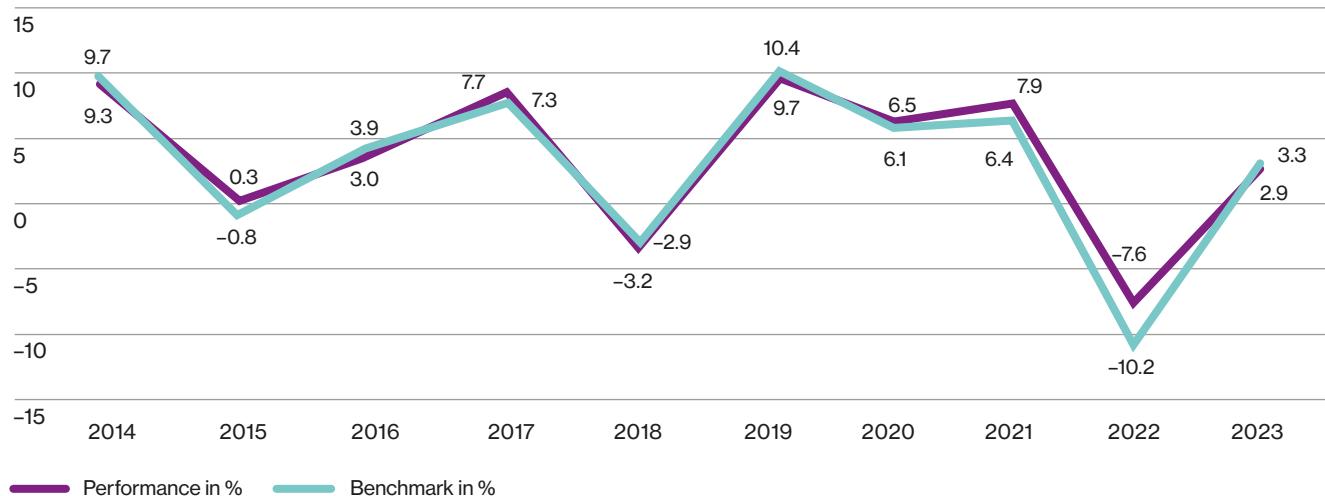
Performance 2023

Following the successful averting of the impending banking crisis in March and in view of the growing hope of a foreseeable end to interest rate hikes by the major central banks, the stock markets performed favorably in the first quarter. In the second quarter, global equities in particular recorded significant advances. On the other hand, yields on longer-term government bonds in the industrialized countries continued to rise, adversely affecting bond performance. Market volatility remained high. After three quarters, the performance of the individual asset classes showed a mixed picture. Equities were supported by the surprisingly strong resilience of the US economy, the slow but steady decline in overall inflation and optimism about artificial intelligence. Robust

In this environment, equities performed best with a gain of 15.87%, followed by bonds (+3.57%), infrastructure investments (+3.06%) and cash and cash equivalents (+1.48%), while alternative investments (-1.38%), real estate (-2.67%)

economic data and rising supply put increasing upward pressure on bond yields, which also had a negative impact on equity valuations in September. Interest rate-sensitive asset classes such as bonds and property lost value as market participants increasingly assumed that interest rates would remain higher for longer. The Swiss franc appreciated against the USD and the EUR. During the fourth quarter, the markets began to expect significant interest rate cuts in 2024. Lower interest rates and robust growth data from the US helped to strengthen confidence in a soft landing for the global economy. These positive macroeconomic developments were a key driver of financial market performance, with positive returns for equities, bonds and infrastructure investments.

and foreign currencies (-6.05%) tended negatively. Overall, the performance of Pension Fund 1 amounted to 2.92%, trailing the benchmark by 40 basis points.



Would you like more information?

As a member of the Novartis Pension Funds, you may obtain the detailed Annual Report for 2023 from the Pension Fund Team.

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Basel, March 2024

Markus Moser / Thierry Beck-Wissmann