



Novartis Pension Funds



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Annual Report 2022



NOVARTIS

Purpose and Organization

The *Novartis Pension Fund 1* with 25 225 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 570.5 million, and the *Management Pension Fund* with assets amounting to CHF 380.6 million.

As the recently published 2022 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 will again initiate 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 -0.63% in the "low-risk" money market strategy to -16.52% in the especially sustainable "Equities 25 ESG" investment strategy which was introduced in the year before last. Overall, the performance of all strategies amounted to -12.72%. By the end of the year, around 42% 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.

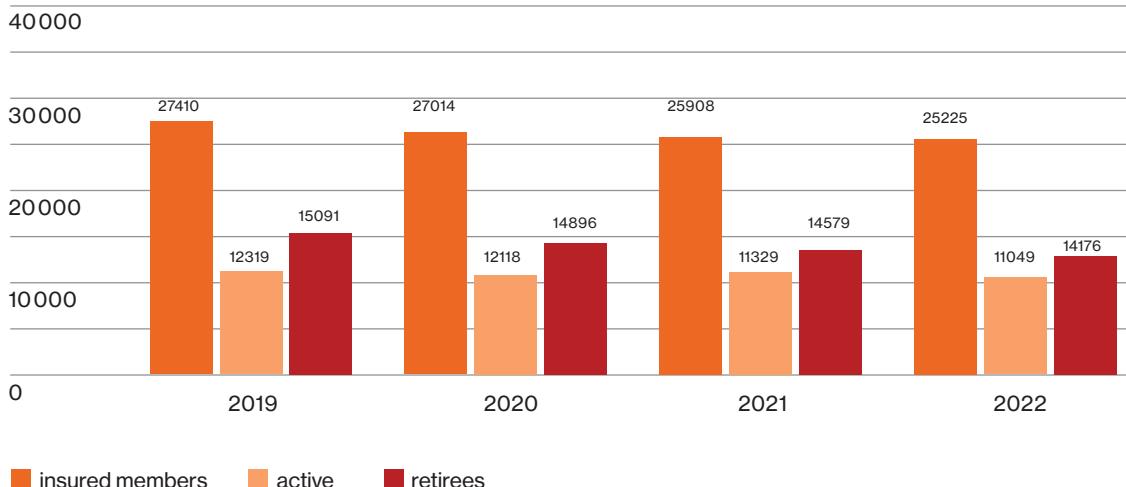
Organization *Novartis Pension Fund 1* (as of December 31, 2022)

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. Thomas Boesch Dr. Bertrand Bugnon Isabelle Defond Felix Eichhorn Dr. Matthias Leuenberger Dr. Christian Rehm	Statutory Auditor PricewaterhouseCoopers AG, Basel
Employees' Representatives Davide Lauditi (Deputy Chairperson) Claudio Campestrin Ralf Endres Andrea Fedriga-Hägeli Eliana Mussin Birgit Schmid 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 2022, there were 11 049 (previous year: 11 329) actively insured members compared with 14 176 (previous year: 14 579) retirees, of whom 9 006 had reached retirement age, 313 were drawing a disability

pension, and 4 432 were drawing a widow(er)'s pension. Orphans' and children's pensions accounted for a further 425 current pensions. The average current pension income amounted to CHF 40 501 (previous year: CHF 40 555).



Annual Statement for 2022

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:

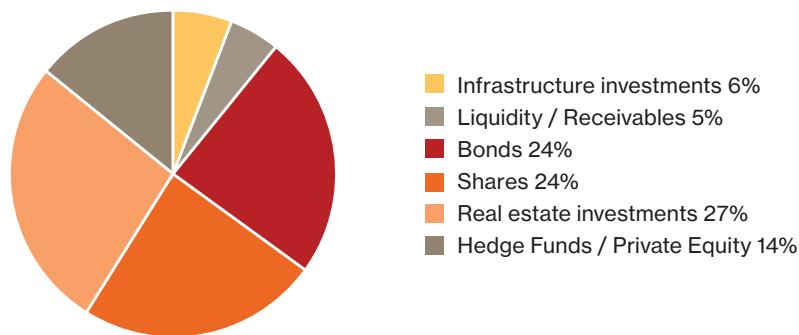
Income (CHF millions)	2022	2021
Employee contributions	116	112
Employer contributions	200	193
Joining fees and follow-up funding	104	106
Deposits on take-over of insured members	1	9
Earnings from investments	68	69
Realized gains from investments	0	251
Diverse	3	0
Total income	492	740
Expenditure (CHF millions)	2022	2021
Pension payments	-591	-606
Lump-sum payments	-36	-43
Portable sums, home ownership payments	-209	-331
Realized losses from investments	-61	0
Administrative costs	-5	-4
Diverse	0	-14
Total expenditure	-902	-998
Net cash flow	-410	-258
Cumulative change in asset values	-1013	
Change in fund value	-1423	

Based on the result from cash flows (CHF –410 million) and taking into account the cumulative change in value of the assets (–1 013 million), the overall decrease in the Fund's value in 2022 amounted to CHF 1 423 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)	31.12.2022	31.12.2021
Liquidity deposits	683	976
Receivables	12	17
Bonds	3 110	3 543
Shares	3 186	3 765
Hedge funds and private equity	1 864	2 058
Infrastructure investments	734	580
Mortgages	0	60
Real estate investments	3 518	3 575
Currency overlay	134	37
Collateral	-92	-39
Total assets	13 149	14 572
Obligations and deferrals	-63	-53
Net fund value	13 086	14 519

The composition of assets breaks down as follows:



Liabilities (CHF millions)*	31.12.2022	31.12.2021
Actuarial reserve and technical accruals	11 418	11 512
Fluctuation reserves	1 664	2 141
Free funds	4	866
Total liabilities	13 086	14 519

* Not including obligations and deferrals

The assets are compared with the required *actuarial reserve* and technical accruals of CHF 11 418 million as per 31 December 2022, 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-

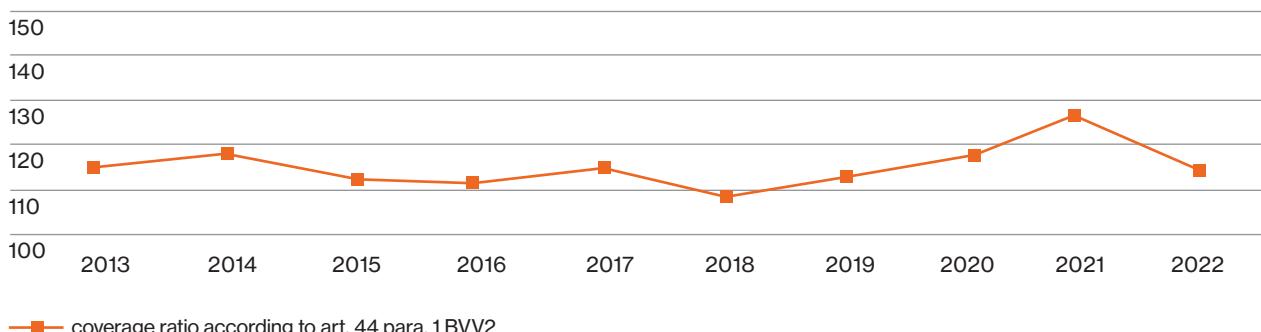
ated with these assets so that the Pension Fund retains its ability to handle financial risk.

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 114.6%. This means that the fluctuation reserves dropped 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 2013–2022, in %



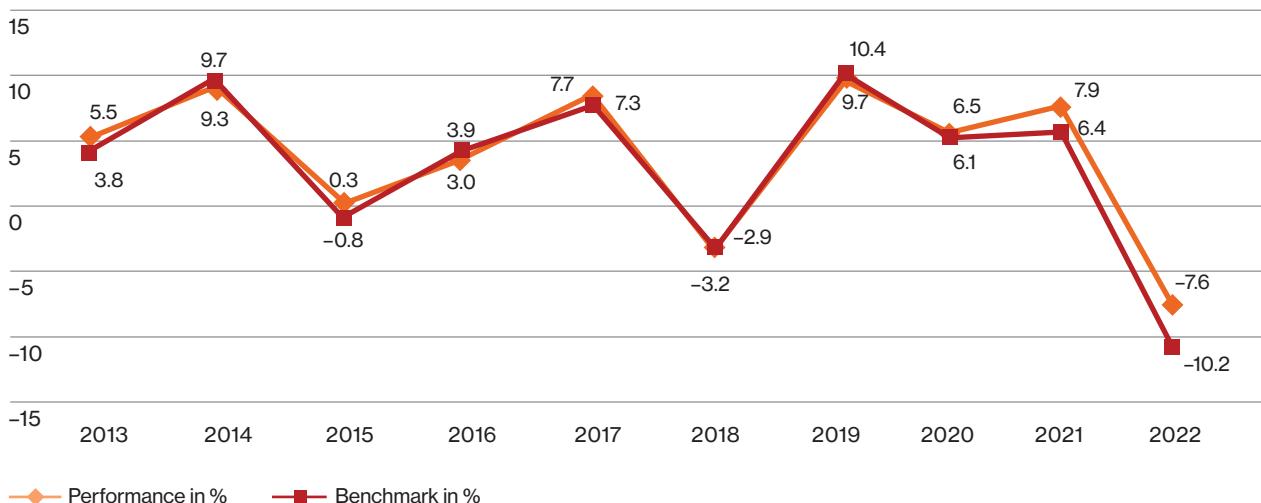
Performance 2022

Against the backdrop of the Russian invasion of Ukraine, looming commodity supply disruptions and increased inflation rates, financial markets were very volatile in the first two quarters of the year. Equities and fixed income securities fell in tandem, as it were, in June, ending one of the worst first half-year periods in decades. The main reason for the dampened global sentiment was fear that persistently high inflation would lead to increasingly restrictive central bank policies and undermine consumer spending. During the

third quarter, the downward trend in both equities and bonds continued after a brief recovery period, accentuated by lingering concerns that central banks would continue to raise policy rates rapidly and fading hopes of a rapid economic recovery. The rally in global equity markets that began in October faded in the final month of the year as growth prospects deteriorated again. On the bond side, investors had to accept losses in the fourth quarter as well.

In this environment, infrastructure investments with a plus of 11.73% and alternative investments (hedge funds, +7.27%) performed best, whereas all other asset classes, namely equities (-17.71%), bonds (-13.59%)

and real estate (-0.81%), trended negatively. Overall, the YTD result for PF1 was -7.63%, outperforming the benchmark (of -10.23%) by 260 basis points.



Would you like more information?

As a member of the Novartis Pension Funds, you may obtain the detailed Annual Report for 2022 from the Pension Fund Team.

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Basel, March 2023

Markus Moser / Thierry Beck-Wissmann