syngenta

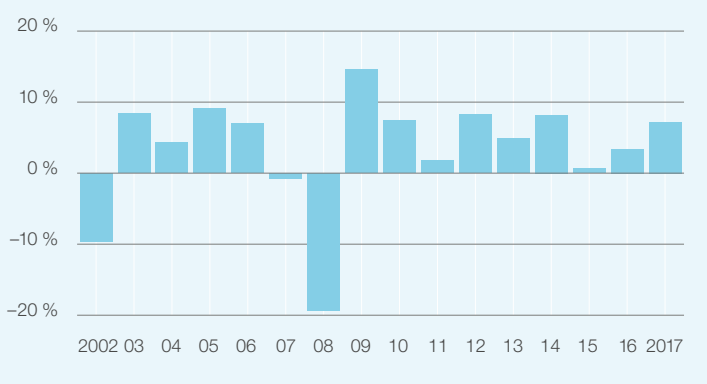
Syngenta Pension Fund

# Short Report on the Year 2017

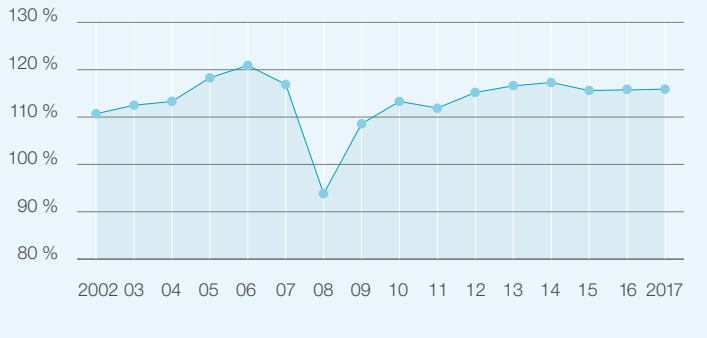
# Executive Director's report

On 24 September 2017, Swiss voters rejected the referendum on the pension reform "Altersvorsorge 2020". Although the need for reforms had been largely recognized, the Federal Council, parliament and social partners did not manage to come up with a political solution for tackling the pressing challenges of the pension system capable of winning majority support. The Federal Council now considers to continue by planning not one but two separate reforms for the 1st pillar (old-age and survivors' insurance AHV) and the compulsory 2nd pillar (pension funds). The objectives for these two reforms, however, remain the same as for "Altersvorsorge 2020": to maintain the level of pensions despite increasing life expectancy and a low-interest environment and to ensure sufficient funds for old-age provisions. Another objective will be to better meet the need for flexibility.

**Development of investment performance**




**Development of funding ratio**




The Board of Trustees of the Syngenta Pension Fund has already reacted to the challenges of longer pension payments and lower expected returns by deciding to reduce the conversion rates as per January 1, 2018. With this decision, the Syngenta Pension Fund paved the way early on and can continue to offer attractive pension benefits thanks to the accompanying measures.

In the past year, the Syngenta Pension Fund achieved a gratifying return of 7.3 % on the capital markets. Based on these good investment results and the sound funding ratio, active insured members took pleasure in an interest rate of 4.25 % for the year 2017, which is exceeding the minimum interest rate stipulated by law by far.

Every four years, the Syngenta employees elect their representatives to the Board of Trustees. The elections took place in spring 2018. In co-operation with the employer's representatives, the employee representatives will assume the challenging and responsible task of shaping the future of the Syngenta Pension Fund within the Board of Trustees. The new employee representatives will take on their new assignments in July 2018.

The roadshows explaining the plan adjustments that took place in autumn 2017 attracted considerable interest among employees. We are, therefore, planning to stage further events on current topics related to old-age provisions and the Syngenta Pension Fund at various Swiss locations at regular intervals starting in autumn 2018. I look forward to seeing many of you there!

Juan Carlos Fernández
Executive Director

# Trust bodies

**Board of Trustees – period of office July 1, 2014 to June 30, 2018**

| Members | Substitutes |
|---|---|
| **Employee representatives** | |
| Aubin Olivier (until 30.9.2017) | Bieri Peronnik |
| Favre Sylvain | Bossert Tobias |
| Davidescu Florin (from 1.10.2017) | Dollinger Daniel |
| Leimgruber Walter | McKerrow Fiona |
| Rouiller Evelyne, Deputy Chairwoman | Herth Thomas (from 1.3.2017) |
| Schweizer Regula (until 28.2.2017) | Merminod Philippe (until 31.5.2017) |
| Weingartner Basil (from 1.3.2017) | Schütz Mathieu (from 1.6.2017) |
| Sneiders Luc | |
| **Employer representatives** | |
| Cherix Jacques | Färber Martin |
| Grüter Xaver | Fischer Erich |
| Kuhn Christine | Meili Tobias |
| Mäder Christoph, Chairman | Sartorius Timon |
| Riebli Peter | Sozzi Dino (until 31.8.2017) |
| Zürcher Nicolas | |

**Investment Committee**
Zürcher Nicolas, (Chairman),
Member of Board of Trustees
Schweizer Regula,
Member of Board of Trustees (until 28.2.2017)
Bieri Peronnik,
Substitute Member of Board of Trustees
Meili Tobias, Substitute Member of Board of Trustees
Weingartner Basil,
Member of Board of Trustees (from 1.3.2017)
Nistler Christian, Investment Strategist
Biedermann Daniel, External Investment Consultant
Scherer Hansruedi, Investment Controller,
PPCmetrics AG, Zürich
Fernández Juan Carlos, Executive Director

**Regulatory Authority**
BVG-und Stiftungsaufsicht beider Basel (BSABB)
Eisengasse 8, 4001 Basel

**Auditor**
PricewaterhouseCoopers AG
St. Jakobs-Strasse 25, 4002 Basel

**Expert in Occupational Benefits Schemes (Actuary)**
Libera AG (Wiedmer Matthias)
Stockerstrasse 34, 8022 Zürich

**Executive Director**
Fernández Juan Carlos

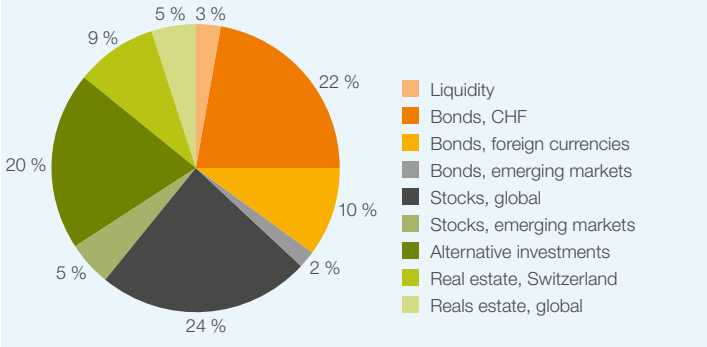
# Investments

## Capital markets in the year 2017

"The most hated bull market in history" is a phrase that market observers have been using extensively to describe the continued risk aversion of many investors in light of unsolved structural problems and sluggish economic growth. Many were sceptical and this made prices at the stock exchange continue to climb the wall of worry. After nine years of growing share prices, scepticism has given way to incredulous acceptance. It can be assumed that, in a last stage, investors will tend to become euphoric and greedy. Nobody wants to miss out on this rally. By then at the latest, great vigilance and a disciplined investment behaviour will be crucial.

Equity investors were pleased about some excellent returns in the year 2017. The global equity market was able to post gains of 18 %, shares from emerging markets even increased by 30 % and the SPI, which reflects the broad Swiss stock market, returned a yield of about 20 %. This is all the more remarkable in view of the fact that yields increased at a low volatility and without any noticeable adjustments. The S&P500, for example, which is the standard index for US shares, advanced in each month of the year 2017, with adjustments never exceeding 3 %. Both of these facts are highly uncommon. Share prices were primarily driven by the strong increase in corporate earnings, the simultaneous, global economic recovery as well as the continuously accommodative monetary policy of central banks. Especially on the US market, valuation multiples (e.g. the price-earnings ratio) increased and are now featured at the upper end of the historic market range. The tax reform in the USA adopted towards the end of the year provided additional impetus. Risks, especially of a geopolitical nature, were largely ignored by market participants.

**Investment structure as at 31.12.2017**




As might be expected, there was no great profit to be earned from bonds. The 10-year return of Swiss bonds remained slightly negative and international interests stagnated on a very low level. On the whole, returns on the bond portfolio were only slightly positive.

Investors continued to appreciate real estate shares and funds listed in Switzerland. However, the segment became more expensive with the average share premium amounting to nearly 30 %, which shows the difference between the valuation on the stock exchange and the valuation in the books. Slightly falling rents caused by the buoyant construction activity combined with a decrease in immigration as well as increasing vacancy rates for office space give cause for concern. Advocates of investments in "concrete gold", on the contrary, continue to point out the investment crisis triggered by the low interest environment, valuation reserves and relatively high dividend yields.

Alternative investments of the Syngenta Pension Fund feature a widely diversified investment spectrum, yielding an average 6 % in the year under review. Infrastructure investments developed particularly favourably with a return of approximately 30 %. Especially shares in European airports such as Copenhagen, Brussels and London Gatwick managed by funds led to substantial valuation gains, i.e. sales proceeds. Private equity investments posted yields of approximately 5 %, commodity investments of approximately 2 %. Absolute-return oriented investments (hedge funds) yielded an average return of about 7 %.

Within the segment of alternative investments, insurance-linked securities weighted at nearly 3 % represented a drawback. Here, investors are basically becoming reinsurers: insurance premiums are paid but disbursements are made if natural disasters exceed a certain level of damage. The

devastating hurricanes in the USA in September and October generated losses of approximately 8 % on these investments.

With regard to currencies, the frequently written-off Euro was able to gain about 9 % compared to the Swiss franc; the US dollar, on the other hand, depreciated slightly. The Pension Fund hedges a substantial part of currency risks. Foreign currency exposure was at an average of 15 %.

## Investment strategy of the Pension Fund

The investment committee only resorted to minor adjustments in allocating the essential asset classes. The weighting of bonds and shares at the end of 2017 remained similar to the beginning of the year. However, by tactically purchasing ETF shares during price setbacks and subsequently selling them after recovery, a contribution of 0.4 % to the total yield of the Pension Fund could be generated. The room for manoeuver for allocation changes is limited anyway, since bonds – which are considered lower in risk – are positioned at the bottom of the weighting range already, measured by the available risk budget. What needs to be mentioned in the area of alternative investments is the establishment of a gold holding of 1 % as well as the investment in a global macro hedge fund managed by Bridgewater Associates. Moreover, investments in global real estate were slightly expanded, now amounting to nearly 5 % of investments.

## Investment results

The Syngenta Pension Fund was able to achieve a return of approximately 7.3 % in the year 2017, which is a good result in cross-comparison. According to the Swisscanto Pension Fund Monitor, Swiss pension funds generated an average (asset-weighted) return of 7.2 % in the reporting year. It is gratifying to note that alternative investments, which at 20 % were given a relatively high weight in cross-comparison, brought a return of approximately 6 % and thus became a significant performance driver besides shares and real estate. The overall yield of 7.3 % is composed as follows:

| **Investment category** | Ø weighting | Performance |
|---|---|---|
| Bonds/Liquidity | 38 % | 0 % |
| Stocks | 28 % | 19 % |
| Real estate | 14 % | 8 % |
| Alternatives | 20 % | 6 % |

## Outlook on 2018

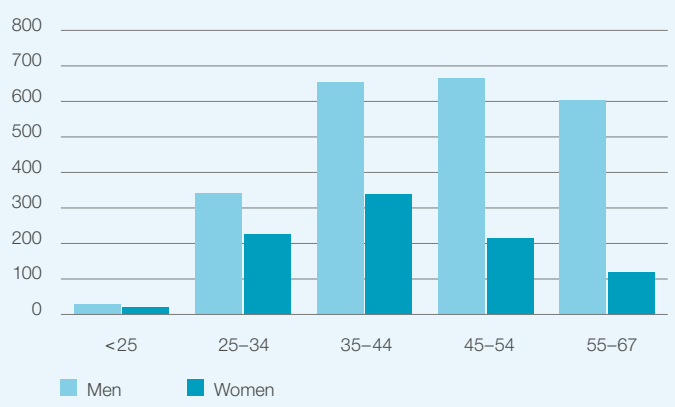
We have reached a late stage in the economic cycle, even though green lights are still on: all significant global economic regions are likely to generate substantial growth rates in 2018. This, however, does not necessarily have to mean that the environment for investment markets will be positive. If the relatively strong growth rates led to inflationary pressure, the central banks would be forced to tighten their interest rate policy more severely than factored in by the market. A sharper rise in interests would be detrimental for many asset classes which have been in high demand over the past years due to the low interest environment. Not only would the known mechanism for bonds set in, whereby increasing interests lead to price losses, but also the equity and real estate markets would be put under great pressure as a result of such a scenario. And consequently, there would be a great risk of price losses in all three traditional investment categories, compromising or even impeding risk mitigation through wide diversification. In such a – not entirely unlikely – scenario, a relatively high cash level would be required even if it didn't generate any return. Over the past years, cash used to be the investment class that was to be avoided; in an environment of rising interest rates this is likely to be different. It also remains to be hoped that absolute-return oriented investments, to which the Syngenta Pension Fund has given particular weighting with approximately 10 %, will live up to their expectations and will contribute to stabilizing the investment performance.

# Financial statement

| Assets in CHF | 31.12. 2017 | 31.12. 2016 |
|---|---|---|
| Liquid funds | 74,541,802 | 131,559,466 |
| Receivables | 11,629,924 | 11,243,719 |
| Prepaid expenses | 36,744,583 | 92,000 |
| Stocks | 729,429,058 | 697,264,766 |
| Bonds | 869,581,588 | 813,705,593 |
| Real Estate | 360,213,631 | 305,876,779 |
| Alternative Investments | 520,625,268 | 439,262,689 |
| Currency Overlay | 7,778,530 | –9,131,713 |
| **Total assets** | **2,610,544,384** | **2,389,873,299** |

| Liabilities in CHF | 31.12. 2017 | 31.12. 2016 |
|---|---|---|
| Liabilities | 26,355,413 | 7,743,977 |
| Deferred income | 1,340,361 | 892,869 |
| Actuarial reserves for active members | 960,359,574 | 967,969,660 |
| Actuarial reserves for retirees | 1,103,189,500 | 980,077,600 |
| Technical provisions | 140,871,467 | 107,159,341 |
| Fluctuation reserve | 378,428,069 | 326,029,852 |
| Trust funds | – | – |
| **Total liabilities** | **2,610,544,384** | **2,389,873,299** |

**Age structure on 31.12. 2017**



# Pension Fund liabilities

The actuarial reserves for active insured members and recipients of pensions, together with the technical reserves, represent the total pension capital and thus essentially the liabilities of the Pension Fund. The actuarial reserves for active insured members, the sum of all assets of the insured members in the retirement and in the capital plan, amounted at the end of 2017 to around CHF 960 million. Of which CHF 269 million is allotted to the retirement savings in accordance with BVG (Swiss pensions law) and is the compulsory part of the benefits. This allocation shows the scale of non-compulsory benefits provided by the Syngenta Pension Fund.

To make sure that pension obligations can be met, the Pension Fund had to provide actuarial reserves of CHF 1,103 billion at the end of 2017. Compared to the previous year this represents an increase by CHF 123 million. Such an increase is mainly due to the reduction of the technical interest rate. In addition the number of current pension recipients increased by 98 people.

The relevant figures for calculating the actuarial reserves needed for financing current pensions are the statistic life expectancy (expected benefit period) and the technical interest rate (future interest on retirement capital). Life expectancy is established with the aid of statistical surveys in so-called technical bases. The Syngenta Pension Fund uses since 2016 the technical basis BVG2015 (generational tables). The technical interest rate is determined by the Board of Trustees and amounts to 2 %. Due to the reduction of the technical interest rate to 2 % a lower proportion of the investment yield will have to be used in future for paying interest on current pensions.

| **Active members** | 2017 | 2016 |
|---|---|---|
| Women | 921 | 970 |
| Men | 2,296 | 2,431 |
| **Total** | **3,217** | **3,401** |

| **Pension recipients** | 2017 | 2016 |
|---|---|---|
| Retirement pensions | 1,174 | 1,106 |
| Disability pensions | 129 | 119 |
| Widow(er),s pensions | 134 | 118 |
| Child pensions | 104 | 100 |
| **Total** | **1,541** | **1,443** |

| **Pensions paid in CHF** | 2017 | 2016 |
|---|---|---|
| Retirement pensions | 49,378,365 | 46,251,605 |
| Disability pensions | 4,229,571 | 4,040,858 |
| Widow(er),s pensions | 3,964,550 | 3,719,122 |
| Other pensions | 3,562,777 | 3,362,778 |
| **Total** | **61,135,263** | **57,374,363** |

# Operating result

| **Operating result in CHF** | 2017 | 2016 |
|---|---|---|
| Contributions of employees/employer, deposits | 168,470,828 | 115,712,504 |
| Vested benefits, repayment of early withdrawals for home ownership and divorce | 12,964,603 | 8,893,491 |
| Inflow from contributions and deposits | 181,435,431 | 124,605,994 |
| Pension benefits paid out | –61,135,263 | –57,374,363 |
| Lump-sum benefits paid out | –16,730,109 | –13,279,935 |
| Vested benefits, early withdrawals for home ownership and for divorce | –81,762,693 | –51,871,599 |
| Outflow for benefits and early withdrawals | –159,628,066 | –122,525,897 |
| Formation of actuarial reserves and technical provisions | –149,213,939 | –63,207,370 |
| Contributions to security fund | –262,585 | –231,332 |
| **Net result from insurance part** | **–127,669,159** | **–61,358,604** |
| Net results from investments | 180,933,705 | 79,085,270 |
| Other earnings | 1,043,233 | 4,574 |
| Other expenses | –309,491 | 0 |
| Administrative expenditure | –1,600,069 | –1,932,218 |
| **Earnings surplus before release/formation of fluctuation reserve** | **52,398,218** | **15,799,022** |
| Release(-)/formation fluctuation reserve | –52,398,218 | –15,799,022 |
| **Expenditure/earnings surplus** | **0** | **0** |

(–) Expenses
(+) Earnings

## Interest on pension capital

The pension fund's return on assets is used to finance interest on the capital of active insured members and pensioners as well as administration costs. The technical interest rate on retiree's assets is set at 2 %. The interest on pension assets accrued by active members is determined at the end of each year based on the yield achieved during that year.

The Board of Trustees decided that all assets of active insured members in the retirement and capital plan should bear in 2017 an interest rate of 4.25 %.

The minimum interest rate defined by law (BVG) corresponds to the rate of interest at which the retirement assets of the active insured members have to bear the minimum interest. This interest rate is defined by the Federal Council. For 2017 the interest rate was set at 1 %.

## Fluctuation reserve and funding ratio

The technical funding ratio of the Pension Fund amounts to 117.2 % as per end of 2017 and thus showed a slight increase as compared to the previous year (115.9 %). In view of the investment strategy, fluctuation reserves of 18 % are required, which corresponds to a target funding ratio of 118 %. In this method of calculation of the funding ratio as stipulated by law, liabilities are taken at their balance sheet value, discounting the funding ratio for current pensions with the technical interest rate of 2 %. It continues to be impossible to reach this interest rate with low-risk investments such as federal bonds.

In an economic context, liabilities are therefore calculated at the current market interest on risk-free investments. These fell below zero in the last year. This valuation of liabilities reflecting market conditions leads to an economic funding ratio as of 31.12.2017 of 100 %.

### Technical funding ratio according to art.44 BVV2

The technical funding ratio indicates the percentage level at which a pension fund's liabilities are covered by assets 100 percent corresponds to a full coverage.

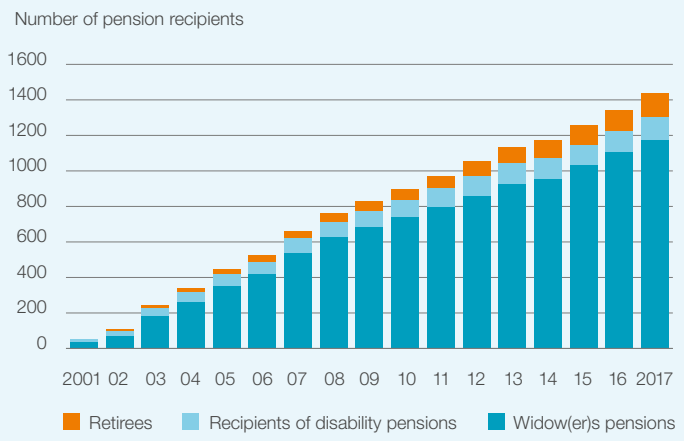
### Fluctuation reserve

Liabilities must be covered at all times by appropriate assets. While liabilities are relatively stable, assets can be subject to considerable fluctuation in value. Fluctuation reserves serve to absorb asset losses on capital markets. The level of fluctuation reserves needed is determined using a financial economic method.

### Economic funding ratio

Contrary to the above-mentioned funding ratio, liabilities are not discounted at the more stable technical interest rate but at a risk-free market interest rate on accrual basis. The interest rates of federal bonds may be taken as a basis for the risk-free interest rate.

### Development of pensions



# Miscellaneous

## Exercise of voting rights

With the „Decree against Excessive Remunerations", Swiss pension funds are required to exercise their voting rights on shares of Swiss stock corporations they are holding in their portfolios. For items falling within the scope of this decree, shareholders' rights are generally exercised by the Syngenta Pension Fund in accordance with the proposals of the Board of Directors. The Syngenta pension fund abstains from voting on items that do not fall within the scope of the decree.

In view of the asset structure of the Syngenta Pension Fund, voting rights to be exercised only exist in the "Swiss Real Estate" mandate (shares of real estate companies).

In spring 2018 the Syngenta Pension Fund exercised its shareholder's rights in the following companies and foundation and thereby approved all motions within the scope of the decree issued by the corresponding board of directors resp. board of trustees:

- Allreal Holding AG
- HIAG Immobilien AG
- MOBIMO Holding AG
- PLAZZA AG
- PSP Swiss Property AG
- Swiss Finance & Property Investment AG
- Swiss Prime Site AG
- UBS AST 3 Investment Foundation
- Zug Estates Holding AG

## Asset management costs

The asset management costs in the various mandates are comprised of direct and indirect costs. With direct costs the respective asset manager charges the pension fund for the services provided. These costs are recognized as an expense in the income statement. Such investments are always considered as "transparent". Indirect costs are management costs which are posted in the performance report. These investments can only be considered as transparent, if the costs are reported according to a cost calculation as stipulated by the Supervisory Commission for Occupational Benefits (OAK BV). If the cost report used by an asset manager and stated in the annual accounts does not comply with one of the calculation methods stipulated by the OAK, these investments are to be posted as "intransparent" investments even though the Pension Fund may have the relevant detailed information about the fund's cost structure.

In the annual report 2016 of the pension fund 91.22 % (previous year: 91.03 %) of the investment costs are considered to be transparent. 8.78 % – mainly alternative investments – are considered to be intransparent.

The Board of Trustees decides on whether to keep these investments considered as intransparent as part of the approval of the annual financial statement. This decision is not only influenced by cost considerations but the costs are also compared to the corresponding net revenue.

## Contact address

Do you have any questions about your
Pension Fund or do you need some expert advice?
Don’t hesitate to contact us:

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www.pensionskasse-syngenta.ch