syngenta

Syngenta Pension Fund

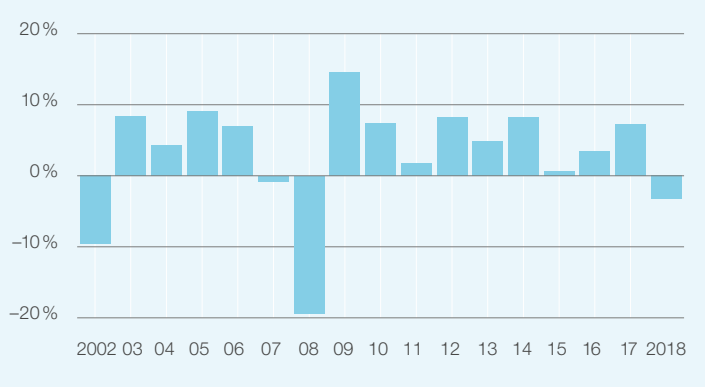
Short Report on the Year 2018

Executive Director's report

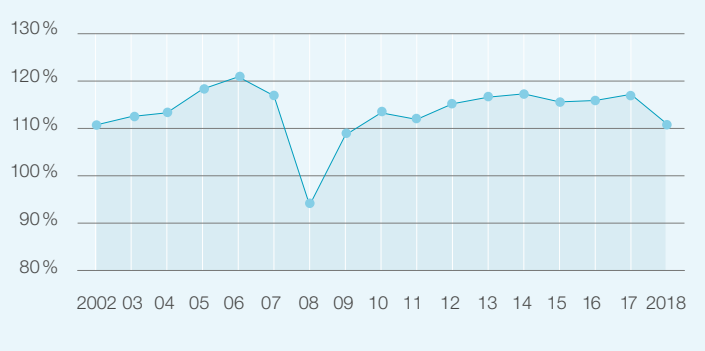
According to the "2018 Worry Barometer", a survey on the Swiss public's concerns, nothing worries the Swiss more than retirement provisions. 45 % of respondents considered securing the retirement provisions to be the most pressing problem to be solved in Switzerland, as stated in the survey published by Credit Suisse at the end of 2018. The vast majority thus consider the topic of old-age and retirement provisions to be the prime objective that the political establishment should focus on.

With the clear adoption of the Federal Act on Tax Reform in the referendum of 19 May 2019 by the Swiss voters, the Old Age and Survivors' Insurance (OASI) is going to receive additional funding of approximately 2 billion Swiss francs per year. This is to secure payment of OASI pensions for the time being. However, predictions for 2025 again anticipate a shortage of 0.5 billion Swiss francs. Subsequently, the deficit is expected to increase even more substantially: in 2030, OASI will be likely to spend 4.5 billion Swiss francs more than it collects, should the government not endeavour to remedy the situation. It is to be hoped that the additional funds allocated to OASI will not alleviate the pressure of finally taking efficient and effective restructuring measures for OASI.

Development of investment performance



Development of funding ratio



The pension funds are equally faced with continuing challenges. The fully-funded second pillar is based on social partnerships and thus widely established. In order to reform the pension funds, the Federal Council commissioned the social partners with elaborating a reform proposal by summer 2019. Adapting parameters to demographic change and to shifting societal and economic requirements will be crucial for shaping the future of the pension funds. Again it is hoped that, over the next months, the social partners will succeed in adopting a solution that will also meet with the approval of the Swiss parliament.

In summer 2018, the employee representatives elected took up their duties as members of the Board of Trustees of the Syngenta Pension Fund. During internal training seminars together with the employer representatives, they were introduced to the complex matter of retirement provisions. In conjunction with external training, these seminars enable the members of the Board of Trustees and their substitutes to gain the necessary expertise and to ensure that their knowledge is up to date. This is essential for the Board of Trustees to be able to assume its management responsibility in a comprehensive, responsible and transparent way and thus to secure and promote long-term trust of insured members.

The roadshows held in autumn 2018 once more attracted considerable interest among employees. We will, therefore, stage further events on current topics related to retirement provisions and the Syngenta Pension Fund in the coming autumn. I look forward to welcoming large numbers of active participants again.

Juan Carlos Fernández
Executive Director

Trust bodies

Board of Trustees – period of office July 1, 2018 to June 30, 2022

Members	Substitutes
Employee representatives	
Bossert Tobias	Bieri Peronnik
Coquoz Serge	Burri Manuela
Favre Sylvain	Dufrénois Rémy
Geiser Davina	Dollinger Daniel
Gsell Bettina	Ferrin Dominique
Sneiders Luc, Deputy Chairman	Schütz Mathieu
Employer representatives	
Cherix Jacques	Bugnon Pascal
Grüter Xaver	Fischer Erich
Kuhn Christine	Sartorius Timon
Meili Tobias, Chairman	Suter Sandra
Färber Martin	
Weingartner Basil	

Investment Committee
Meili Tobias, Member of Board of Trustees (Chairman)
Geiser Davina, Member of Board of Trustees
Bieri Peronnik, Substitute Member of Board of Trustees
Weingartner Basil, Member of Board of Trustees
Nistler Christian, Investment Strategist
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)
Wiedmer Matthias, Libera AG
Stockerstrasse 34, 8022 Zürich

Executive Director
Fernández Juan Carlos

Investments

Capital markets in 2018

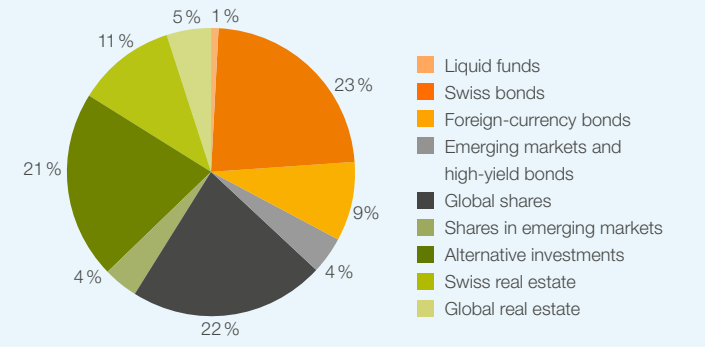
2018 proved to be an inconsistent year for capital markets, strongly shaped by politics. While the beginning of the year was dominated by fears of a possible overheating of the economy, investors seemed to be increasingly concerned about an economic downturn towards the end of the year. Particular worries related to the trade conflict between the US and China, the unresolved issues regarding Brexit as well as tensions within the Eurozone. The less expansionary monetary policy of the central banks additionally contributed to a negative sentiment towards the end of the year, especially in view of interest rate hikes and the fact that the US Federal Reserve ceased to purchase securities. Consequently, the weak and volatile final quarter caused global equity markets to plunge to negative levels and thus led to the worst year since the financial crisis in 2008.

With approximately –9% each, the global and Swiss equity markets posted almost equal losses, whereas shares from emerging markets lost around –14 %. This correction, however, comes after an excellent year 2017, which for example saw an increase in yields of shares from emerging markets of 30% and a gratifying 18% yield of global equities. Price corrections in the final quarter combined with relatively good corporate earnings make stock market valuations more attractive again. The European stock market, for example, showed a price-earnings ratio of 13 by the end of the year; the ratio of the US stock market was at 16. European equities seem to be favourably priced historically, whereas US and Swiss stocks are valued fairly.

Contrary to the expectations of many experts, Swiss bonds performed slightly positively, with the ten-year return dropping from –0.15 % at the start of the year to –0.25 % at year-end and thus leading to a slight rise in value. Foreign currency bonds, on the other hand, suffered losses, especially caused by interest rate increases in the US. Investments in high-yield and emerging market bonds posted losses of approximately –5 %.

For the first time in years, real-estate funds listed in Switzerland generated a negative return with an average of –4 %. Current rental income together with slightly higher valuation rates of real estate were unable to offset the decrease in share premiums (the difference between the valuation on the stock exchange and the net asset value of the fund) from 28% at the beginning of the year to about 16% towards the end of the year. However, the valuation of listed real-estate funds looks more attractive again, since share premiums in the area of 16 % approximately correspond to the long-term average and very low interests are usually accompanied by higher share premiums.

Investment structure as at 31.12.2018



Investment strategy of the Pension Fund

The investment committee only resorted to minor adjustments in allocating the essential asset classes. However, the price correction of bonds from emerging markets and listed real estate funds in Switzerland was taken as an opportunity to further expand the portfolio. Additionally, a further investment was made in the area of private debt. Expected, risk-adjusted yields in this area remain comparatively attractive.

In the 4th quarter, the Pension Fund carried out an Asset Liability Management (ALM) study in co-operation with an external specialist. This was necessary as the last one had been conducted more than five years ago and the essential parameters (i.e. member structure, life expectancy, interest level, anticipated yield of asset classes) had changed considerably. The result of the ALM study can be summarized as

follows: the new investment strategy as per 2019 will place much less emphasis on bonds (–10 %) and instead focus to a much greater extent on Swiss real estate, global real estate and infrastructure. This shift was mainly driven by the negative interest level of Swiss bonds. Necessary adjustments to the portfolio in the course of the first half of 2019 will be of a minor scale, with the investment committee having already underweighted Swiss bonds in the reporting year in comparison to the 2018 investment strategy. Moreover, the currency hedging quota is going to decrease from 88 % to 81 %, which is mainly due to steep hedging costs of the USD against the Swiss franc as a consequence of the high interest rate differential.

Investment results

The Syngenta Pension Fund achieved an investment yield of –3.3 % in the year 2018. According to the UBS Pension Fund Barometer, Swiss pension funds generated an average return of –3.5 %. This slightly above-average performance of the Syngenta Pension Fund is especially pleasing in light of the fact that it had been facing a structural handicap, investing only in real estate funds listed in Switzerland and not in direct investments in Swiss real estate. The former posted yields of about –4 %, the latter on the other hand generated +4 %. With an average weighting of more than 10 % of pension fund assets, this resulted in a disadvantage in terms of return of 1 % in cross-comparison. However, it was possible to counterbalance this handicap with a gratifying performance of alternative investments as well as by making tactical adjustments to the equity and currency hedging quotas throughout the year.

The overall yield of –3.3 % is composed as follows:

Investment category	Ø Weighting	Performance
Bonds/Liquidity	37 %	–1 %
Stocks	27 %	–11 %
Real estate	15 %	–2 %
Alternatives	21 %	2 %

Remarkably, alternative investments were the only asset class to achieve a positive return. Alternative investments of the Syngenta Pension Fund feature a widely diversified investment spectrum. A particularly gratifying performance of approximately 9 % was delivered by infrastructure investments. Private equity and private debt investments also performed well with a yield of about 5 %. Absolute-return oriented investments (hedge funds) achieved an average return of approximately 2 %.

On the downside, returns of alternative investments in the area of commodities declined by –6 %; and investments in insurance-linked securities also suffered slight losses.

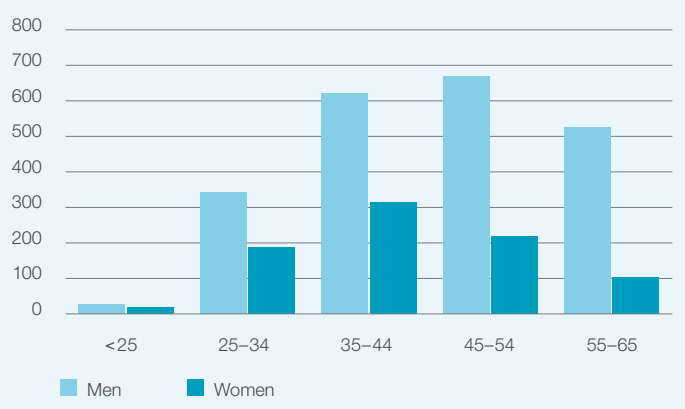
In conclusion, it becomes evident that the vastly diversified investment portfolio of the Syngenta Pension Fund contributed to cushioning the negative effects caused by stock market corrections in 2018.

Financial statement

Assets in CHF	31.12.2018	31.12.2017
Liquid funds	32,656,622	74,541,802
Receivables	18,109,978	11,629,924
Prepaid expenses	103,108	36,744,583
Stocks	643,690,780	729,429,058
Bonds	876,611,564	869,581,588
Real Estate	380,283,270	360,213,631
Alternative Investments	524,773,644	520,625,268
Currency Overlay	4,404,639	7,778,530
Total assets	**2,480,633,606**	**2,610,544,384**

Liabilities in CHF	31.12.2018	31.12.2017
Liabilities	25,941,818	26,355,413
Deferred income	897,405	1,340,361
Actuarial reserves for active members	1,010,630,400	960,359,574
Actuarial reserves for retirees	1,143,974,800	1,103,189,500
Technical provisions	56,623,155	140,871,467
Fluctuation reserve	242,566,029	378,428,069
Trust funds	–	–
Total liabilities	**2,480,633,606**	**2,610,544,384**

Age structure on 31.12. 2018



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 plan, amounted at the end of 2018 to around CHF 1,010 million. Of which CHF 260 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 were met, the Pension Fund had to provide actuarial reserves of CHF 1,143 million at the end of 2018. Compared to the previous year this represents an increase by CHF 40,8 million. The number of pension recipients increased by 71 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 as generational tables. The technical interest rate is determined by the Board of Trustees and amounts to 2 %.

Active members	2018	2017
Women	841	921
Men	2,185	2,296
Total	**3,026**	**3,217**

Pension recipients	2018	2017
Retirement pensions	1,230	1,174
Disability pensions	131	129
Spouse's pensions	149	134
Child pensions	102	104
Total	**1,612**	**1,541**

Pensions paid in CHF	2018	2017
Retirement pensions	52,939,965	49,378,365
Disability pensions	4,504,081	4,229,571
Spouse's pensions	4,224,981	3,964,550
Other pensions	3,311,191	3,562,777
Total	**64,980,218**	**61,135,263**

Operating result

Operating result in CHF	2018	2017
Contributions of employees/employer, deposits	109,374,090	168,470,828
Vested benefits, repayment of early withdrawals for home ownership and divorce	8,377,980	12,964,603
Inflow from contributions and deposits	117,752,070	181,435,431
Pension benefits paid out	–64,980,218	–61,135,263
Lump-sum benefits paid out	–18,608,125	–16,730,109
Vested benefits, early withdrawals for home ownership and for divorce	–75,539,476	–81,762,693
Outflow for benefits and early withdrawals	–159,127,819	–159,628,066
Formation of actuarial reserves and technical provisions	–6,807,814	–149,213,939
Contributions to security fund	–280,172	–262,585
Net result from insurance part	**–48,463,734**	**–127,669,159**
Net results from investments	–85,760,929	180,933,705
Other earnings	40,001	1,043,233
Other expenses	–111,963	–309,491
Administrative expenditure	–1,565,415	–1,600,069
Earnings surplus before release/formation of fluctuation reserve	**–135,862,040**	**52,398,218**
Release(-)/formation fluctuation reserve	135,862,040	–52,398,218
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 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 plan should bear in 2018 an interest rate of 1.5 %. The financing of this interest rate was charged to the fluctuation reserve.

The minimum interest rate according to Swiss pension law is defined annually by the Federal Council. For 2018 the interest rate was set at 1 %.

Fluctuation reserve and funding ratio

The technical funding ratio of the Pension Fund amounts to 111 % as per end of 2018 and thus showed a decrease as compared to the previous year (117.2 %). With the investment return of –3.3 % the interest on pension assets for the active insured members and for pension recipients could not be achieved through the investment return. Therefore, the fluctuation reserves had to be accessed.

In view of the investment strategy, fluctuation reserves of 17 % are required, which corresponds to a target funding ratio of 117 %. In this method of calculation of the funding ratio as stipulated by law, liabilities are taken at their balance sheet value, discounting the funding ration for current pensions with the technical interest rate of 2 %.

In an economic context, liabilities are 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 31.12.2018 of 94.3 %.

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.

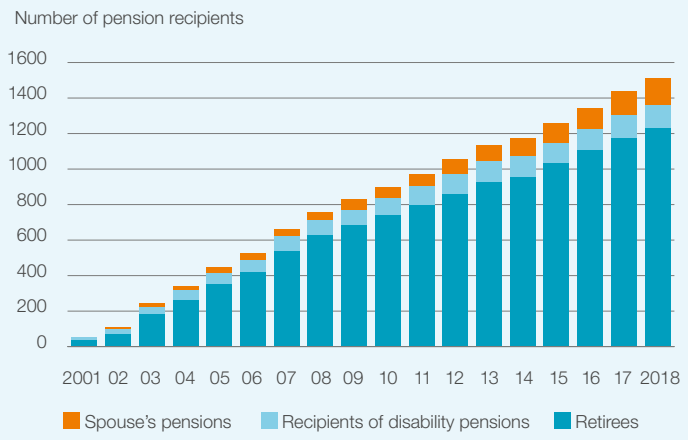
Fluctuation reserve

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. The fluctuation reserve supports the pension fund to meet its liabilities over the long term. Therefore it contributes to the financial stability of the pension fund.

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 2019 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
- Zürich Anlagestiftung

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 2018 of the pension fund 89.97 % (previous year: 91.22 %) of the investment costs are considered to be transparent. 10.03 % – 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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