



## Novartis Pension Fund – Your Pension Fund

### **Purpose and Organization**

The *Novartis Pension Fund* with more than 30000 insured members and retirees and assets worth 12.6 billion francs is one of the largest autonomous pension organizations in Switzerland.

With the aim of instituting a modern Pension Fund for all Swiss-based Novartis associates that is at the same time sustainably financed, transparent, fit for purpose and optimally flexible for the future, the Board of Trustees decided early in 2010 to shift from a defined benefits to a defined contributions plan.

The change came about on January 1, 2011, and required the Novartis Pension Fund to be split into two legal entities, namely Novartis Pension Funds 1 and 2.

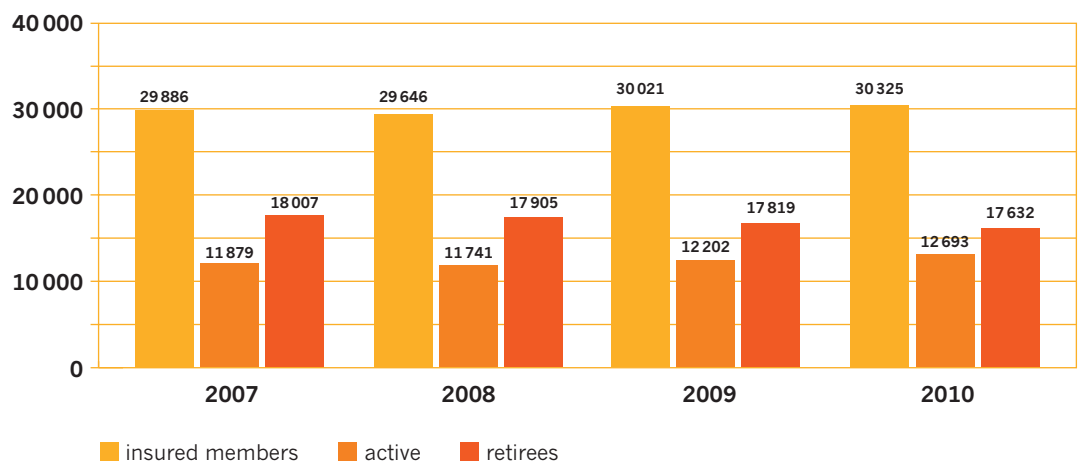
As the annual statement shows, we have embarked on the new strategy from a position of strength.

The Board of Trustees of the Novartis Pension Fund is made up equally of 7 employers' and 7 employee's representatives. The employee representatives were elected to a new four-year term of office in December 2008.

Pension Fund Organization (as of December 31, 2010)	
<b>Board of Trustees</b> (Period of office from January 1, 2009 until December 31, 2012)	<b>Management</b> Dr. Markus Moser, <i>Managing Director</i> Marco Armellini, <i>Deputy Managing Director</i>
<b>Employers' Representatives</b> Michael Plüss ( <i>Chairperson</i> ) Dr. Martin Batzer Remo Inglin Hans Locher Knut Mager Dr. Gijs van Bussel Armin Züst	<b>Auditor</b> PricewaterhouseCoopers AG, Basel
<b>Employees' Representatives</b> Dr. Eva Trächslin ( <i>Deputy Chairperson</i> ) Susanne Berto Henriette Brunner Cathlyn Carley Rudolf Haas Daniel Linder Brigitte Martig	<b>Actuary</b> LCP Libera AG, Zurich
<b>Retirees' Committee</b> Erhard Eichenberger, Schönenbuch Gilbert Fahrni, Reinach Alex Gasser, Birsfelden	<b>Statutory Inspectorate</b> Aufsichtsbehörde BVG und Stiftungsaufsicht des Kantons Basel-Stadt Spiegelgasse 6 4001 Basel

### Statistical Data

Let us start with some **statistical data** on Novartis Pension Fund as reported in the actuarial statement: On 31 December 2010, there were 12 693 (previous year: 12 202) actively insured members compared with 17 632 (previous year: 17 819) retirees, of whom 11 610 had reached retirement age, 683 were drawing a disability pension, and 4 879 were drawing a widow(er)'s pension. Orphans' and children's pensions accounted for a further 460 current pensions. The average current pension income in the Novartis Pension Fund amounted to 39 153 (previous year: 39 248) francs.



### Annual Statement for 2010

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:

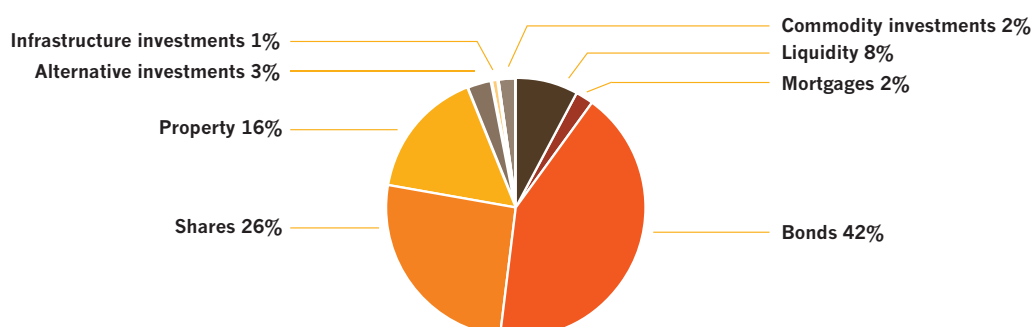
<b>Income (CHF millions)</b>	<b>2010</b>	<b>2009</b>
Employee contributions	76	73
Employer contributions	137	196
Joining fees and follow-up funding	74	79
Earnings on investments	156	324
Realized gains from investments	588	0
<b>Total income</b>	<b>1031</b>	<b>672</b>
<b>Expenditure (CHF millions)</b>	<b>2010</b>	<b>2009</b>
Pension payments	-717	-724
Lump-sum payments	-21	-29
Portable sums, home ownership payments	-94	-78
Realized losses from investments	0	-399
Administrative costs	-5	-4
Miscellaneous	-2	-18
<b>Total expenditure</b>	<b>-839</b>	<b>-1 252</b>
<b>Net cash flow</b>	<b>192</b>	<b>-580</b>
<b>Cumulative change in asset values</b>	<b>-537</b>	
<b>Change in fund value</b>	<b>-345</b>	

Based on the result from cash flows (CHF 192 million francs) and taking into account the cumulative change in value of the assets (CHF -537 million francs), the overall net decrease in the Fund's value in 2010 was CHF 345 million.

The following **Balance sheet** provides an overview of Pension Fund's assets in terms of their **market value**.

<b>Assets (CHF millions)</b>	<b>31.12.2010</b>	<b>31.12.2009</b>
Liquidity and fixed-term deposits	954	574
Receivables	17	23
Bonds	5 286	6 438
Shares	3 338	3 099
Alternative investments	342	480
Infrastructure investments	173	175
Commodity investments	280	16
Mortgages	204	219
Real estate investments	2 008	1 916
<b>Total assets</b>	<b>12 602</b>	<b>12 940</b>
<b>Obligations, prepaid income and accruals</b>	<b>-27</b>	<b>-20</b>
<b>Net fund value</b>	<b>12 575</b>	<b>12 920</b>

The composition of assets breaks down as follows:



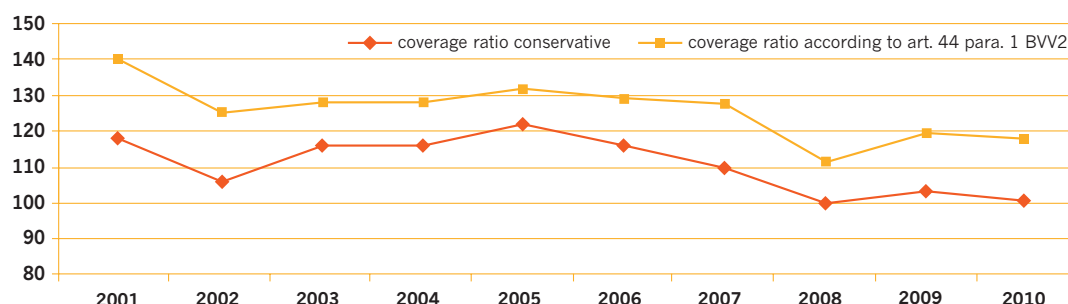
<b>Liabilities (CHF millions)*</b>	<b>31.12.2010</b>	<b>31.12.2009</b>
Actuarial reserve and technical accruals	<b>10766</b>	10832
Fluctuation reserves	<b>1721</b>	1659
Funds for purchase of benefits and additional benefits	<b>88</b>	429
<b>Total liabilities</b>	<b>12575</b>	12920

\* Not including obligations, prepaid income and accruals

The assets are compared with the required actuarial reserve and technical accruals of 10766 million francs as per 31 December 2010, calculated in accordance with recognized actuarial principles based on art. 53 para. 2 BVG. In addition to these liabilities, the Pension Fund also has reserves for fluctuations in value. Finally, the funds for purchase of benefits and additional benefits, amounting to 88 million francs, contain the so-called free resources of the Pension Fund.

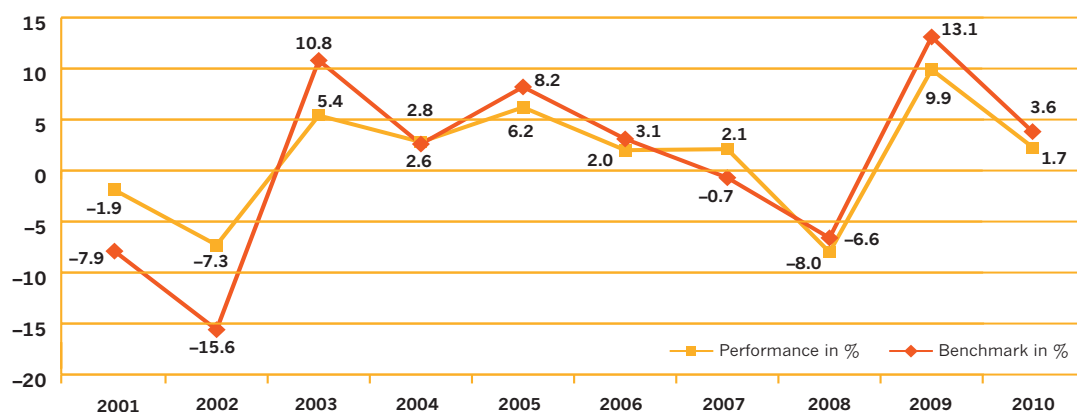
The ratio of tied assets to free assets gives the **coverage ratio ("Deckungsgrad")**, which at the end of the year under review amounted to 100.8%. This is based on our traditionally conservative method of calculation. However, according to the more common method of declaration used by the Supervisory Authorities in accordance with art. 44 para. 1 BVV2, the coverage ratio amounted to 116.8%. This means that the fluctuation reserves are at their target level, and the capacity of Novartis Pension Fund to manage financial risk is intact. In addition, there are further free funds available. In short, the Pension Fund's financial situation is solid.

#### Development of Coverage Ratio 2001–2010, in %



#### Performance 2010 and Allocation

We again look back on a turbulent investment year. Following a positive first quarter, nervousness began to make itself felt in the financial markets toward the end of April and in May on the back of the escalating "Greek crisis". Muted expectations regarding the economic situation for the following 12 to 18 months kept stock markets depressed and led in October to new lows in long-term yields on government bonds, which ended up increasing slightly towards the end of the year. The Fund's overall performance was up +1.67 percent, trailing the corresponding benchmark comparison value of +3.60 percent.



The detailed annual report for 2010 can be obtained from the Pension Fund Administration:  
Telephone +41 61 324 24 20, e-mail: [markus-pk.moser@novartis.com](mailto:markus-pk.moser@novartis.com)