

2013



## Novartis Pension Funds – Your Pension Funds

### Purpose and Organization

The *Novartis Pension Fund 1* with more than 31 000 insured members and retirees and assets worth 12.7 billion francs is one of the largest autonomous pension organizations in Switzerland. It has now been joined by the new *Novartis Pension Fund 2* with assets of CHF 453.9 million.

In 2010, the Board of Trustees had decided to change from a defined benefits plan to a defined contributions plan. Its aim is to provide a sustainably financed and transparent pension scheme for all Swiss-based Novartis associates that fits the purpose and ensures optimum flexibility. The plan change took place on January 1, 2011, and required that the Novartis Pension Fund be split into two legal entities, namely Novartis Pension Fund 1 and Novartis Pension Fund 2.

As shown in the recently published Annual Reports for 2013, the Novartis Pension Funds are in a good shape to meet the challenges of the future.

### The new *Novartis Pension Fund 2* – an innovative approach

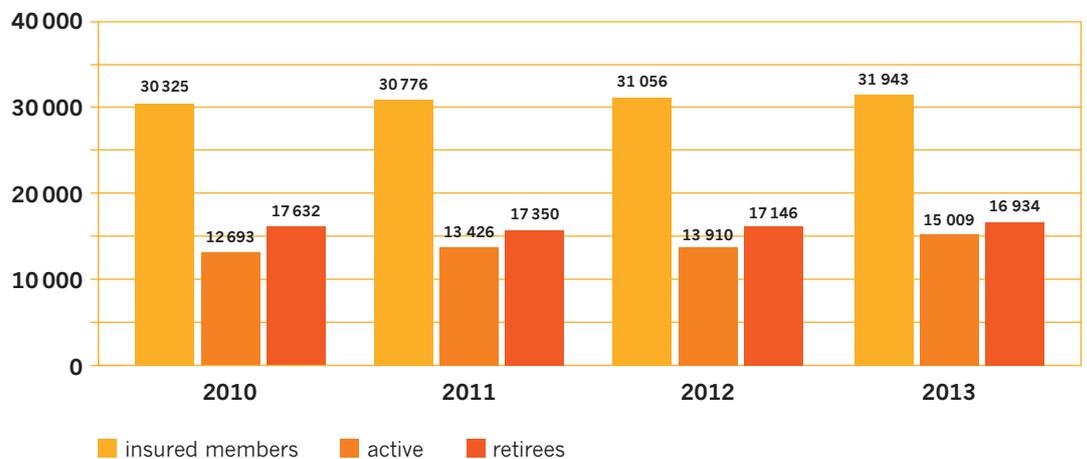
Even the regulated field of occupational pensions in Switzerland has leeway for flexible solutions. Besides offering insured members ways of tailoring their pension to meet their needs, these solutions also require them to take more personal responsibility. One example is the option to select the investment strategy in the non-mandatory area of pension arrangements. *Novartis Pension Fund 2*, for instance, shows how this approach can work in practice. Insured members can now choose from five (formerly four) investment strategies with different risk profiles. A total of 1 337 of the 5 066 participants availed themselves of this option by the end of the reporting period. Total performance amounted to +1.01 percent.

The Board of Trustees of the *Novartis Pension Fund 1* is made up equally of 7 employer's and 7 employees' representatives.

<b>Organization <i>Novartis Pension Fund 1</i></b> (as of December 31, 2013)	
<b>Board of Trustees</b> (Period of office from January 1, 2013 until December 31, 2016)	<b>Management</b> Dr. Markus Moser, <i>Managing Director</i> Marco Armellini, <i>Deputy Managing Director</i>
<b>Employer's Representatives</b> Christian Eugster ( <i>Chairperson</i> ) Dr. Martin Batzer Dr. Thomas Boesch Pascal Brenneisen Remo Inglin Knut Mager Dr. Stephan Mumenthaler	<b>Statutory Auditor</b> PricewaterhouseCoopers AG, Basel
<b>Employees' Representatives</b> Claudio Campestrin ( <i>Deputy Chairperson</i> ) Susanne Alt Cathlyn Carley Dr. Stefanie Katja Kniep Daniel Linder Brigitte Martig Maria Rita Walde	<b>Actuary</b> Libera AG, Zurich
<b>Retirees' Committee</b> Erhard Eichenberger, Schönenbuch Gilbert Fahrni, Reinach Rudolf Haas, Basel	<b>Statutory Inspectorate</b> 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 2013, there were 15 009 (previous year: 13 910) actively insured members compared with 16 934 (previous year: 17 146) retirees, of whom 11 090 had reached retirement age, 524 were drawing a disability pension, and 4 930 were drawing a widow(er)'s pension. Orphans' and children's pensions accounted for a further 390 current pensions. The average current pension income amounted to 39 648 (previous year: 39 053) francs.



### Annual Statement for 2013

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:

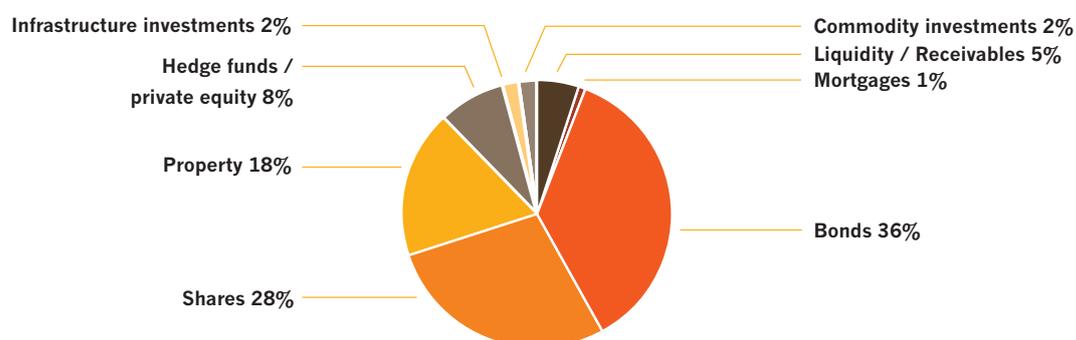
<b>Income (CHF millions)</b>	<b>2013</b>	<b>2012</b>
Employee contributions	114	104
Employer contributions	210	197
Joining fees and follow-up funding	228	192
Deposits on take-over of insured members	4	2
Earnings from investments	92	95
Realized gains from investments	122	0
Miscellaneous	0	6
<b>Total income</b>	<b>770</b>	<b>596</b>
<b>Expenditure (CHF millions)</b>	<b>2013</b>	<b>2012</b>
Pension payments	-695	-697
Lump-sum payments	-21	-22
Portable sums, home ownership payments	-116	-113
Realized losses from investments	-0	-32
Administrative costs	-4	-4
Miscellaneous	-4	-0
<b>Total expenditure</b>	<b>-840</b>	<b>-868</b>
<b>Net cash flow</b>	<b>-70</b>	<b>-272</b>
<b>Cumulative change in asset values</b>	<b>+461</b>	
<b>Change in fund value</b>	<b>+391</b>	

Based on the result from cash flows (CHF -70 million) and taking into account the cumulative change in value of the assets (CHF +461 million), the overall net increase in the Fund's value in 2013 was CHF 391 million.

The following *Balance sheet* provides an overview of the assets of *Novartis Pension Fund 1* in terms of their market value.

<b>Assets (CHF millions)</b>	<b>31.12.2013</b>	<b>31.12.2012</b>
Liquidity deposits	657	483
Receivables	21	75
Bonds	4643	5080
Shares	3614	3141
Hedge funds and private equity	962	607
Infrastructure investments	219	227
Commodity investments	183	350
Mortgages	155	167
Real estate investments	2244	2198
Currency overlay	43	22
<b>Total assets</b>	<b>12741</b>	<b>12350</b>
<b>Obligations and deferrals</b>	<b>-29</b>	<b>-33</b>
<b>Net fund value</b>	<b>12712</b>	<b>12317</b>

The composition of assets breaks down as follows:



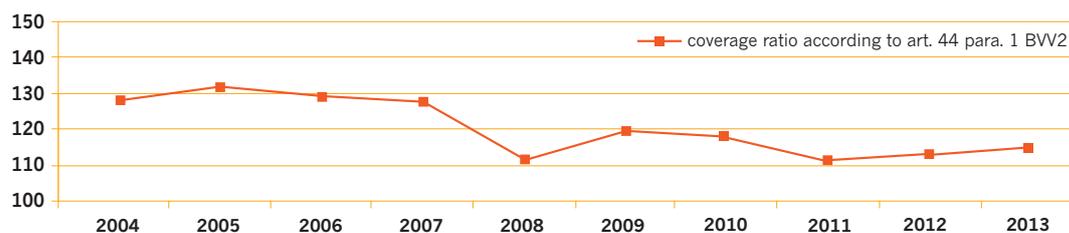
<b>Liabilities (CHF millions)*</b>	<b>31.12.2013</b>	<b>31.12.2012</b>
Actuarial reserve and technical accruals	<b>10077</b>	10838
Fluctuation reserves	<b>1615</b>	1458
Free funds	<b>20</b>	21
<b>Total liabilities</b>	<b>12712</b>	12317

\* Not including obligations and deferrals

The assets are compared with the required *actuarial reserve* and technical accruals of 11 077 million francs as per 31 December 2013, 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 conventional method of declaration in accordance with art. 44 para. 1 BVV2, the funding ratio amounted to 114.8 percent. This means that, while the financial position strengthened again compared to the previous year, the fluctuation reserves were not yet at their target level, so the risk-taking capacity of *Novartis Pension Fund 1* within the limits of its investment strategy cannot be considered to be unrestricted. On the other hand, the capital base required to meet the long-term pension liabilities was further strengthened again. As a result of this increase in the actuarial reserves for pensions in payment by a total of around 450 million francs (in two stages, 2012/13), due account was taken of the continuing low interest rates and the rising life expectancy.

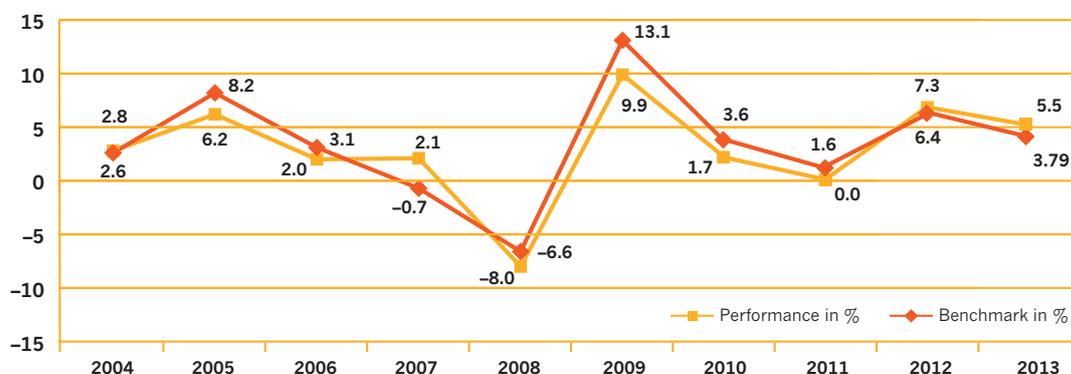
#### Development of Coverage Ratio 2004–2013, in %



#### Performance 2013

The past year was one of reinvigorated global economic growth, which saw the first signs of a change in interest rate trends. The positive economic developments and the decision of the US Federal Reserve (FED) to start tapering the continued purchase of securities led to a noticeable increase in interest rates from their historic low levels in December 2013, while the upward trend in stocks continued to the end of the year.

The overall performance of *Novartis Pension Fund 1* amounted to +5.51% and thus exceeded the benchmark value (of +3.79%) by almost 172 basis points.



The detailed Annual Report for 2013 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)