



Novartis Pension Funds – Your Pension Funds

Purpose and Organization

The *Novartis Pension Fund 1* with more than 31 600 insured members and retirees and assets worth 13.6 billion francs is one of the largest autonomous pension organizations in Switzerland. It joined by the *Novartis Pension Fund 2* with assets of CHF 521.4 million.

In 2010, the Board of Trustees had decided to change from a defined-benefits plan to a defined-contributions plan. The objective was 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 2014, the Novartis Pension Funds are in a good shape to meet present and future challenges. Not least among these are the changes resulting from the sale of the Novartis Animal Health business to *Eli Lilly*, the divestment of the non-influenza Vaccines business to *GSK* and the creation of the *Novartis OTC and GSK Consumer Healthcare Joint Venture*. Given the number of employees affected by these transactions, the Novartis Pensions Funds will 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, as well as free funds will be transferred collectively to the new employers' pension funds.

The *Novartis Pension Fund 2* – an innovative approach

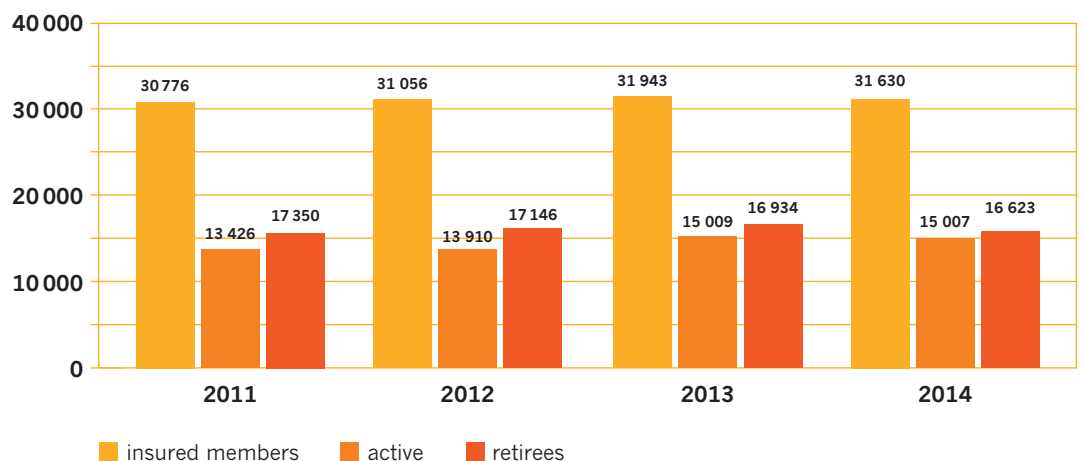
Even the regulated field of occupational pensions in Switzerland has leeway for flexible solutions. Besides offering insured members ways of tailoring their pension to meet their needs, these solutions also require them to take more personal responsibility. One example is the option to select the investment 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 choose from five investment strategies with different risk profiles. A total of 1 715 of the 5 361 participants availed themselves of this option by the end of the reporting period. Total performance amounted to +7.89 percent.

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, 2014)	
Board of Trustees (Period of office from January 1, 2013 until December 31, 2016)	Management Dr. Markus Moser, <i>Managing Director</i> Marco Armellini, <i>Deputy Managing Director</i>
Employer's Representatives Dr. Martin Batzer (<i>Chairperson</i>) Dr. Thomas Boesch Isabelle Defond Felix Eichhorn Dr. Matthias Leuenberger Knut Mager Dr. Stephan Mumenthaler	Statutory Auditor PricewaterhouseCoopers AG, Basel
Employees' Representatives Claudio Campestrin (<i>Deputy Chairperson</i>) Susanne Alt Cathlyn Carley Dr. Stefanie Katja Kniep Daniel Linder Brigitte Martig Maria Rita Walde	Actuary Libera AG, Zurich
Retirees' Committee Erhard Eichenberger, Schönenbuch Gilbert Fahrni, Reinach Rudolf Haas, 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 2014, there were 15007 (previous year: 15009) actively insured members compared with 16623 (previous year: 16934) retirees, of whom 10881 had reached retirement age, 490 were drawing a disability pension, and 4897 were drawing a widow(er)'s pension. Orphans' and children's pensions accounted for a further 355 current pensions. The average current pension income amounted to 39844 (previous year: 39648) francs.



Annual Statement for 2014

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:

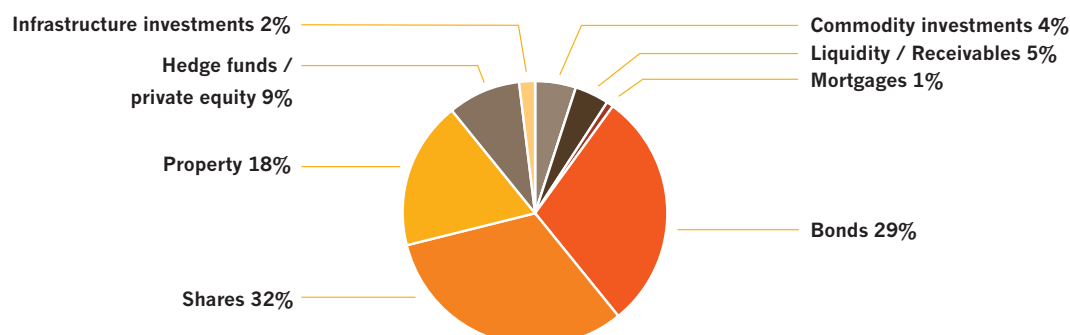
Income (CHF millions)	2014	2013
Employee contributions	121	114
Employer contributions	220	210
Joining fees and follow-up funding	204	228
Deposits on take-over of insured members	0	4
Earnings from investments	94	92
Realized gains from investments	406	122
Total income	1 045	770
Expenditure (CHF millions)	2014	2013
Pension payments	-686	-695
Lump-sum payments	-20	-21
Portable sums, home ownership payments	-128	-116
Administrative costs	-4	-4
Miscellaneous	0	-4
Total expenditure	-838	-840
Net cash flow	+207	-70
Cumulative change in asset values	+675	
Change in fund value	+882	

Based on the result from cash flows (CHF +207 million) and taking into account the cumulative change in value of the assets (CHF +675 million), the overall net increase in the Fund's value in 2014 was CHF 882 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)	31.12.2014	31.12.2013
Liquidity deposits	767	657
Receivables	28	21
Bonds	3 925	4 643
Shares	4 426	3 614
Hedge funds and private equity	1 188	962
Infrastructure investments	254	219
Commodity investments	603	183
Mortgages	144	155
Real estate investments	2 387	2 244
Currency overlay	-99	43
Total assets	13 623	12 741
Obligations and deferrals	-28	-29
Net fund value	13 595	12 712

The composition of assets breaks down as follows:



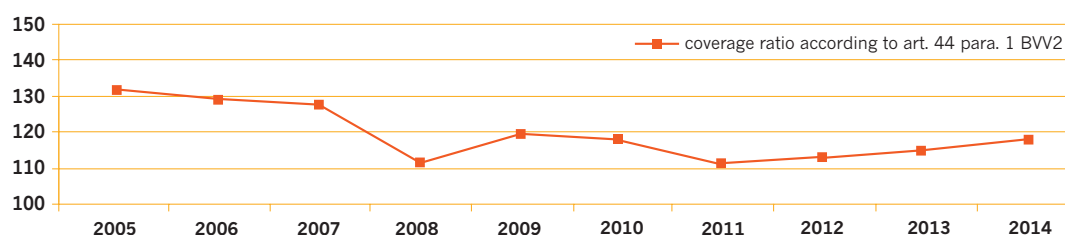
Liabilities (CHF millions)*	31.12.2014	31.12.2013
Actuarial reserve and technical accruals	11 585	11 077
Fluctuation reserves	1 714	1 615
Free funds	296	20
Total liabilities	13 595	12 712

* Not including obligations and deferrals

The assets are compared with the required *actuarial reserve* and technical accruals of 11 585 million francs as per 31 December 2014, 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 BVV 2, the funding ratio amounted to 117.4 percent. This means that the financial position strengthened again compared to the previous year, and that the fluctuation reserves were at their target level, so the risk-taking capacity of *Novartis Pension Fund 1* can be considered to be unrestricted within the limits of its investment strategy. At the same time, the capital base required to meet the long-term pension liabilities was further strengthened. As a result of this increase in the actuarial reserves for pensions by around 384 million francs, due account was taken of the all-time low interest rate levels and the rising life expectancy.

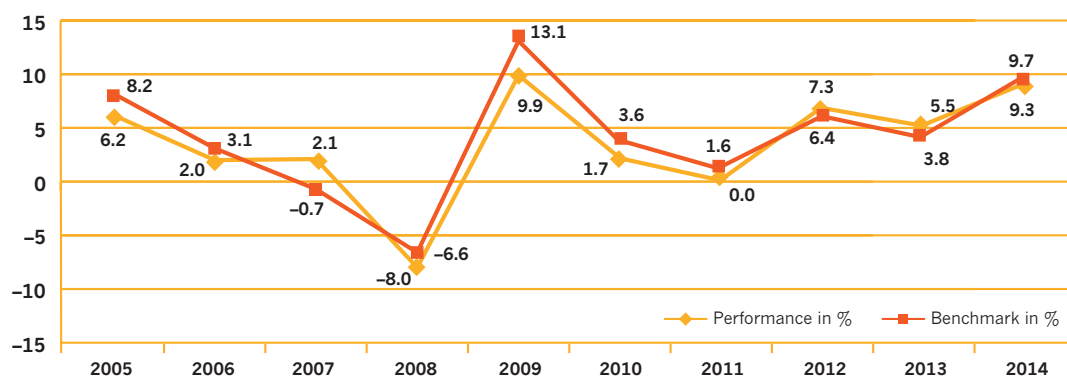
Development of Funding ratio 2005–2014, in %



Performance 2014

The past year was the third year in a row with an extraordinarily gratifying performance. All asset classes contributed to the positive result. The financial markets proved remarkably robust with regard to a number of unexpected negative events (a downturn early in 2014, Ukraine crisis, slump in the oil price, the specter of deflation in Europe, etc.). A crucial factor behind this robust constitution was not least the continued expansion of central bank balance sheets. The biggest surprise was the continued decline in global long-term interest rates due to low inflation and an unabated demand for returns on investment.

The overall performance of *Novartis Pension Fund 1* amounted to +9.25% and thus missed the benchmark value (of +9.69%) by 44 basis points.



The detailed annual report for 2014 can be obtained from the Pension Fund Administration: Telephone +41 61 324 24 20, email: markus-pk.moser@novartis.com