



2015

Novartis Pension Funds – Your Pension Funds

Purpose and Organization

The *Novartis Pension Fund 1* with more than 29 400 insured members and retirees and assets worth 13.2 billion francs is one of the largest autonomous pension organizations in Switzerland. It is joined by the *Novartis Pension Fund 2* with assets of 531.1 million francs.

As shown in the recently published annual reports for 2015, the Novartis Pension Funds are in a good shape to meet present and future challenges. Not least among these are the structural changes resulting from the sale of the Novartis Animal Health business to *Eli Lilly* and of the Influenza Vaccines entity to *CSL*, 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 Pension Funds initiated and carried through a so-called partial liquidation in order to ensure that the groups of insured members leaving and those remaining in the company are treated equally with regard to the available reserves and the free funds of the transferor pension funds. The impact of these changes is also reflected in the annual reports.

The *Novartis Pension Fund 2* – an innovative approach

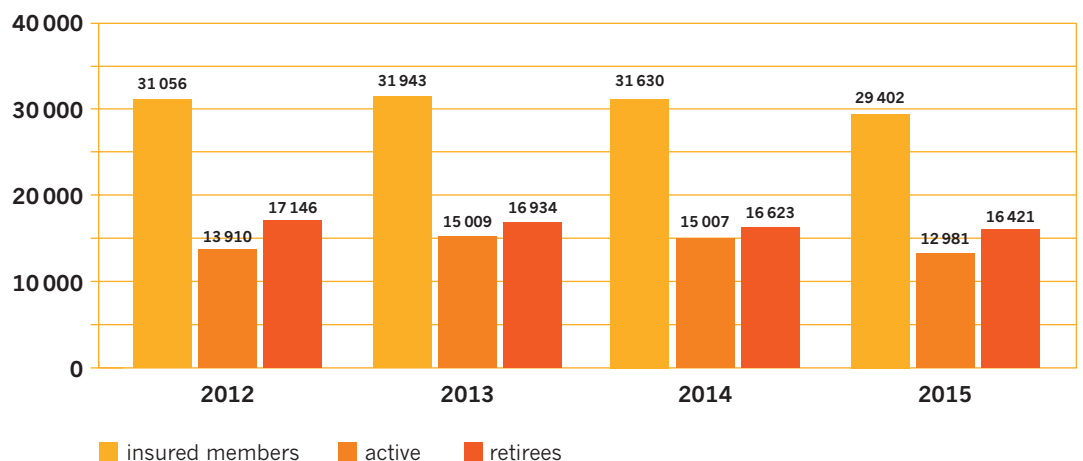
Even the regulated field of occupational pensions in Switzerland has leeway for flexible solutions. Besides offering insured members ways of tailoring their pension to meet their needs, these solutions also require them to take more personal responsibility. One example is the option to select the investment 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 1 916 of the 4 936 participants availed themselves of this option by the end of the reporting period. Total performance amounted to +0.45 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 31 December 2015)	
Board of Trustees (Period of office from 1 January 2013 until 31 December 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 Dr. Stefanie Katja Kniep Davide Lauditi 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 2015, there were 12981 (previous year: 15007) actively insured members compared with 16421 (previous year: 16623) retirees, of whom 10691 had reached retirement age, 459 were drawing a disability pension, and 4908 were drawing a widow(er)'s pension. Orphans' and children's pensions accounted for a further 363 current pensions. The average current pension income amounted to 39939 (previous year: 39844) francs.



Annual Statement for 2015

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:

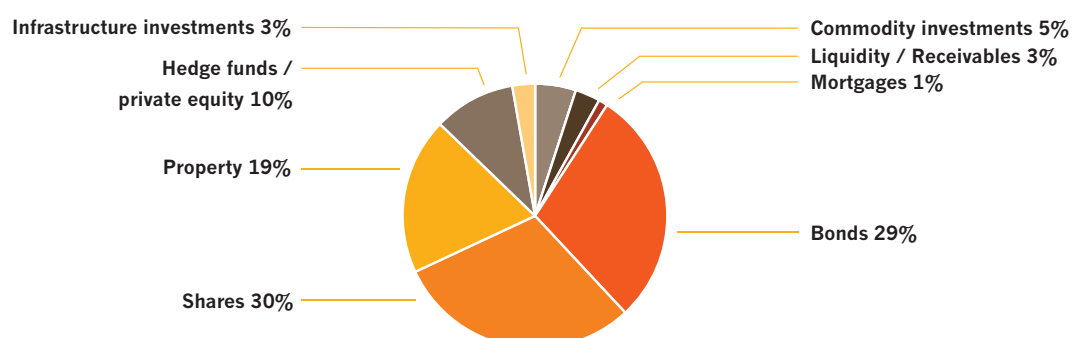
Income (CHF millions)	2015	2014
Employee contributions	119	121
Employer contributions	211	220
Joining fees and follow-up funding	139	204
Earnings from investments	92	94
Realized gains from investments	0	406
Miscellaneous	8	0
Total income	569	1045
Expenditure (CHF millions)	2015	2014
Pension payments	-678	-686
Lump-sum payments	-21	-20
Portable sums, home ownership payments	-280	-128
Realized losses from investments	-104	0
Administrative costs	-4	-4
Total expenditure	-1087	-828
Net cash flow	-518	+207
Cumulative change in asset values	+118	
Change in fund value	-400	

Based on the result from cash flows (-518 million francs) and taking into account the cumulative change in value of the assets (+118 million francs), the overall net decrease in the Fund's value in 2015 was 400 million francs.

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

Assets (CHF millions)	31.12.2015	31.12.2014
Liquidity deposits	281	767
Receivables	27	28
Bonds	3769	3925
Shares	3937	4426
Hedge funds and private equity	1260	1188
Infrastructure investments	351	254
Commodity investments	719	603
Mortgages	131	144
Real estate investments	2556	2387
Currency overlay	192	-99
Total assets	13 223	13 623
Obligations and deferrals	-231	-28
Net fund value	12 992	13 595

The composition of assets breaks down as follows:



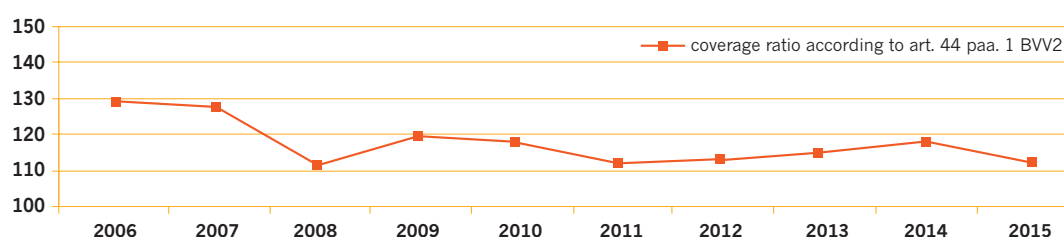
Liabilities (CHF millions)*	31.12.2015	31.12.2014
Actuarial reserve and technical accruals	11 495	11 585
Fluctuation reserves	1 479	1 714
Free funds	18	296
Total liabilities	12 992	13 595

* Not including obligations and deferrals

The assets are compared with the required *actuarial reserve* and technical accruals of 11 495 million francs as per 31 December 2015, 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 113 percent. This means that the fluctuation reserves are close to their target level and that the capacity of *Novartis Pension Fund 1* to manage financial risk is mostly intact. At the same time, there are no further free funds available. Also reflected in the funding ratio are the substantial increases of the actuarial reserves for pensions over the previous three years and the provisions set aside for financing compensation credits in the context of the conversion rate adjustments enacted in January 2016. With all these measures, due account was taken of the all-time low interest rate levels and the continuously rising life expectancy.

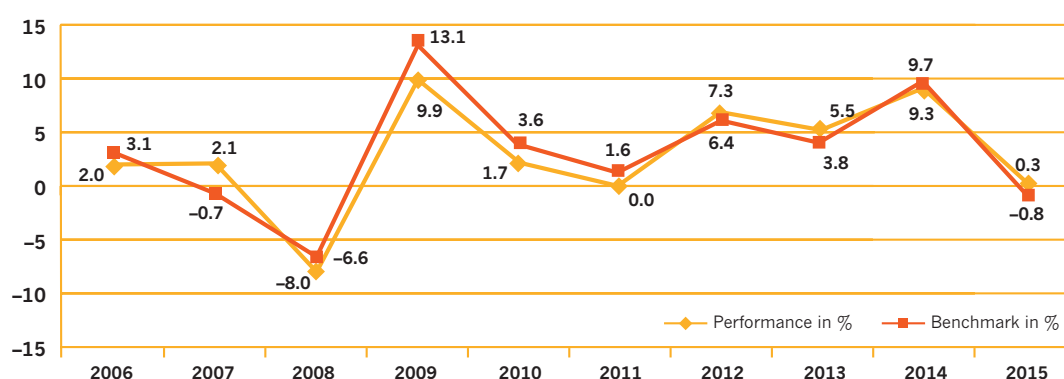
Development of Funding Ratio 2006–2015, in %



Performance 2015

The favourable development of the previous three years could not be carried forward into 2015. Only real estate and alternative investments contributed positively. Apart from increasing concerns about an economic slowdown, market performance towards the end of the year was influenced by the first increase in official interest rates by the US FED and the less than expected stimulus package of the European Central Bank (ECB). As a result, equity markets reacted with some losses going into year end. A combination of slightly higher yields and spreads provided negative total returns for global bond markets. The revaluation of the Swiss Franc in January, in the wake of the Swiss National Bank's (SNB) decision to discontinue the EUR/CHF peg, was reversed over the year, but the absolute foreign currency result remained negative.

The overall performance of *Novartis Pension Fund 1* amounted to +0.32% and thus exceeded the benchmark value (of -0.76) by 108 basis points.



The detailed annual report for 2015 can be obtained from the Pension Fund Administration: Telephone +41 61 324 24 20, email: markus-pk.moser@novartis.com