

Novartis Pension Funds

Annual Report 2016



Purpose and Organization

The Novartis Pension Fund 1 with close to 29000 insured members and retirees and assets worth 13 billion francs is one of the largest autonomous pension organizations in Switzerland. It is joined by the Novartis Pension Fund 2 with assets of 541.3 million francs.

As shown in the recently published annual reports for 2016, the Novartis Pension Funds are in a good shape to meet present and future challenges.

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 2030 of the 4952 participants availed themselves of this option by the end of the reporting period. Total performance amounted to +2.60 percent.

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

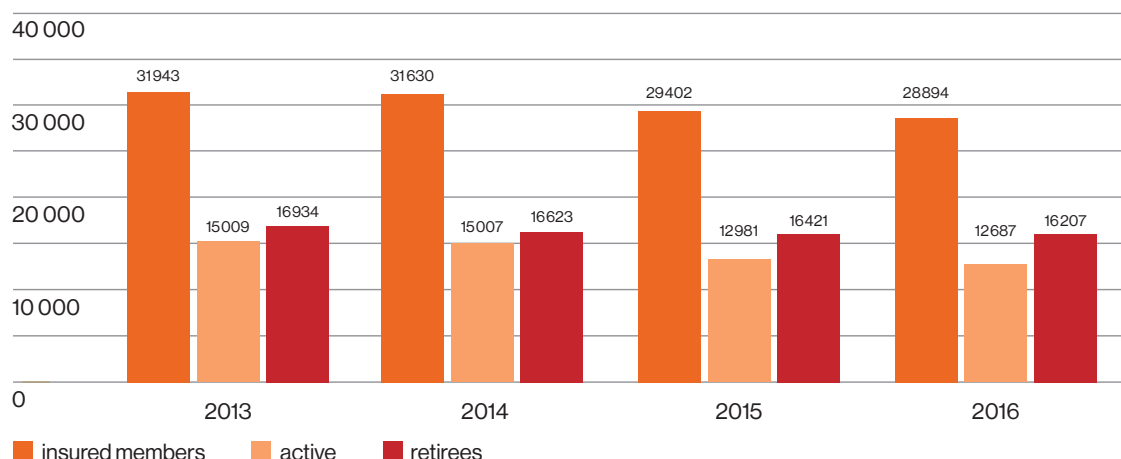
Organization Novartis Pension Fund 1 (as of December 31, 2016)

Board of Trustees (Period of office from 1 January 2013 until 31 December 2016)	Management Dr. Markus Moser, Managing Director Marco Armellini, Deputy Managing Director
Employer's Representatives Dr. Martin Batzer (Chairperson) Dr. Thomas Boesch Isabelle Defond Felix Eichhorn Dr. Matthias Leuenberger Knut Mager Dr. Stephan Mumenthaler	Statutory Auditor PricewaterhouseCoopers AG, Basel
Employees' Representatives Claudio Campestrin (Deputy Chairperson) 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 2016, there were 12687 (previous year: 12981) actively insured members compared with 16207 (previous year: 16421) retirees, of whom 10496 had reached retirement age, 430 were drawing a disability

pension, and 4896 were drawing a widow(er)'s pension. Orphans' and children's pensions accounted for a further 385 current pensions. The average current pension income amounted to 40163 (previous year: 39939) francs.



Annual Statement for 2016

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:

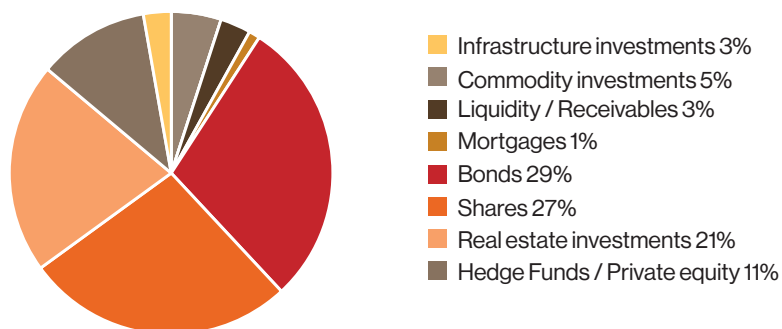
Income (CHF millions)	2016	2015
Employee contributions	110	119
Employer contributions	195	211
Joining fees and follow-up funding	169	139
Deposits on take-over of insured members	60	0
Earnings from investments	75	92
Realized gains from investments	138	0
Miscellaneous	3	8
Total income	750	569
Expenditure (CHF millions)	2016	2015
Pension payments	-672	-678
Lump-sum payments	-17	-21
Portable sums, home ownership payments	-156	-478
Realized losses from investments	-0	-104
Administrative costs	-4	-4
Payables	-199	198
Total expenditure	-1048	-1087
Net cash flow	-298	-518
Cumulative change in asset values	+69	
Change in fund value	-229	

Based on the result from cash flows (-298 million francs) and taking into account the cumulative change in value of the assets (+69 million francs), the overall decrease in the Fund's value in 2016 was 229 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)	31.12.2016	31.12.2015
Liquidity deposits	391	281
Receivables	22	27
Bonds	3844	3769
Shares	3469	3937
Hedge funds and private equity	1468	1260
Infrastructure investments	391	351
Commodity investments	670	719
Mortgages	115	131
Real estate investments	2687	2556
Currency overlay	-63	192
Total assets	12994	13223
Obligations and deferrals	-32	-231
Net fund value	12962	12992

The composition of assets breaks down as follows:



Liabilities (CHF millions)*	31.12.2016	31.12.2015
Actuarial reserve and technical accruals	11577	11495
Fluctuation reserves	1376	1479
Free funds	18	18
Total liabilities	12962	12992

* Not including obligations and deferrals

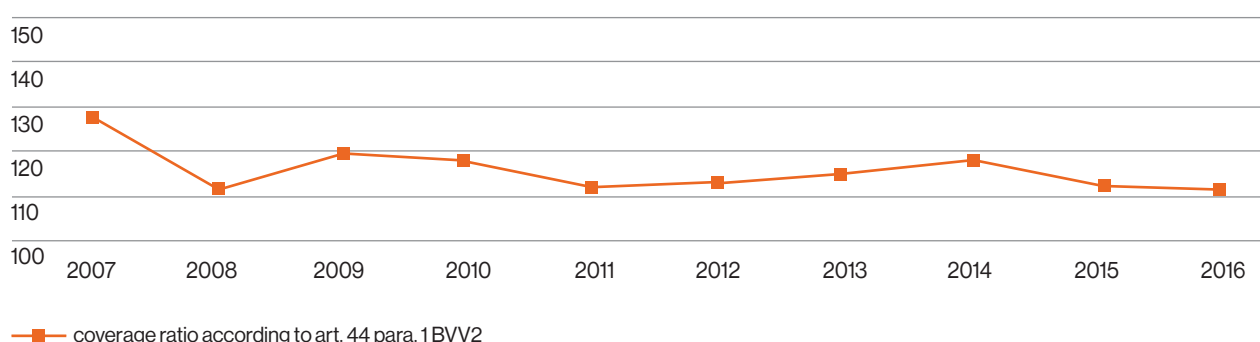
The assets are compared with the required actuarial reserve and technical accruals of 11577 million francs as per 31 December 2016, calculated in accordance with recognized actuarial principles based on art. 53

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 112 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 past years (most recently, by year-end 2016, the latest set of generational mortality tables "BVG 2015" were implemented) 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 2007–2016, in %

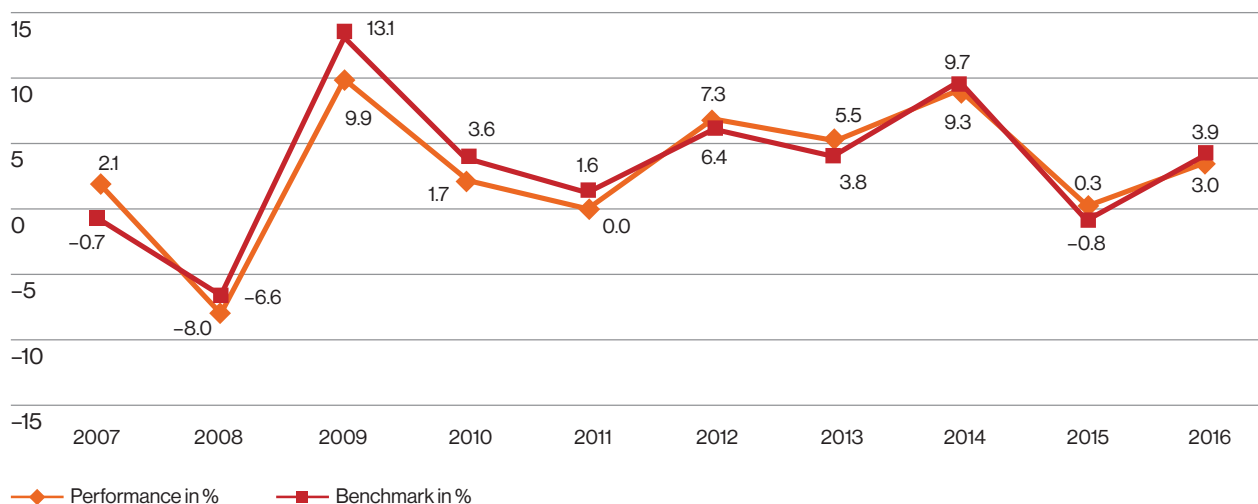


Performance 2016

After a turbulent start of the year, the stock markets embarked on a recovery phase in February, supported by central banks and a certain bottoming out of the economic indicators. In the middle of the year, the unexpected "Brexit" added another uncertainty factor, although the markets outside the U.K. reacted calmly. In the third quarter the markets were influenced by political uncertainty and the central banks' various monetary policy directions. In November, a majority of investors were caught off-guard by the outcome of the US presidential election. However, after an initial

correction, the election triggered an equity rally due to the expectation of higher government spending and rising inflation. In December, the anticipated key rate hike was carried out by the US Fed. The financial markets had largely factored in the probability of such an adjustment, which is why government bond prices fell only slightly.

The overall performance of Novartis Pension Fund 1 amounted to +2.97% and thus missed the benchmark value (of 3.89) by 92 basis points.



Would you like more information?

The detailed annual report for 2016 can be obtained from the Pension Fund Administration:

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Basel, March 2017

Markus Moser / Thierry Beck-Wissmann