

Novartis Pension Funds



Annual Report 2017

Purpose and Organization

The Novartis Pension Fund 1 with close to 28500 insured members and retirees and assets worth 13.6 billion francs is one of the largest autonomous pension organizations in Switzerland. It is joined by the Novartis Pension Fund 2 with assets of 589.5 million francs.

As shown in the recently published annual reports for 2017, 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 2340 of the 5111 participants availed themselves of this option by the end of the reporting period. Total performance amounted to +4.33 percent.

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

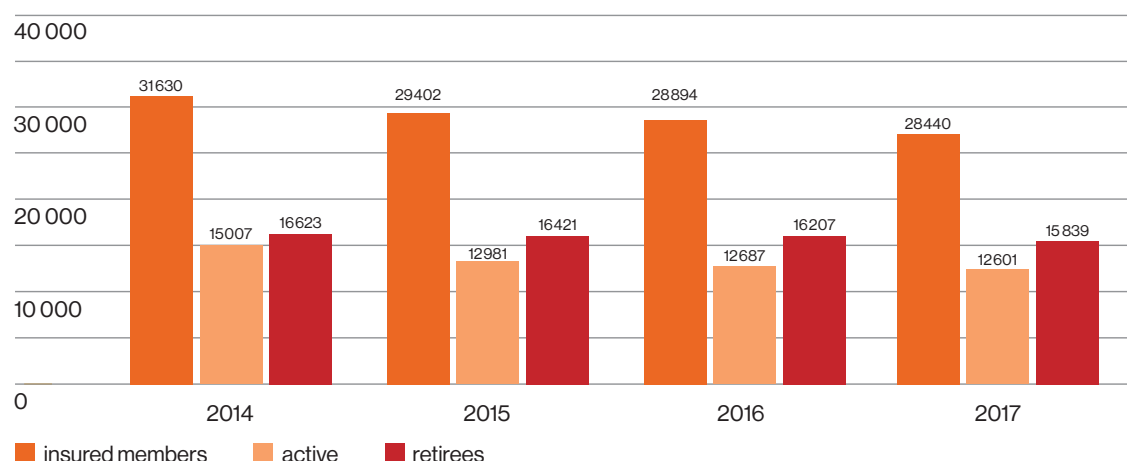
Organization Novartis Pension Fund 1 (as of December 31, 2017)

Board of Trustees (Period of office from January 1, 2017 until December 31, 2020)	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) Dr. Stefanie Katja Kniep Davide Lauditi Daniel Linder Brigitte Martig Silvia Müller 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 2017, there were 12601 (previous year: 12687) actively insured members compared with 15839 (previous year: 16207) retirees, of whom 10220 had reached retirement age, 397 were drawing a disability

pension, and 4837 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 40549 (previous year: 40163) francs.



Annual Statement for 2017

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:

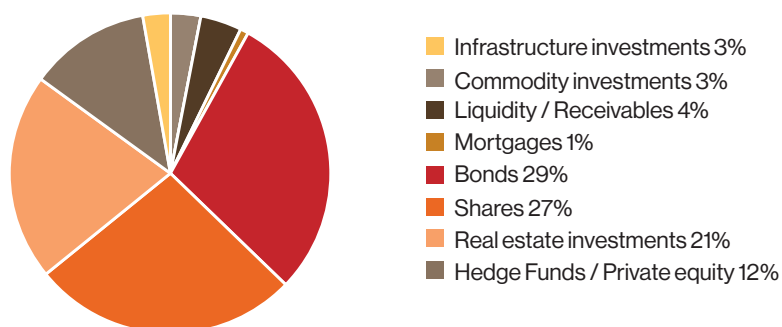
Income (CHF millions)	2017	2016
Employee contributions	112	110
Employer contributions	196	195
Joining fees and follow-up funding	176	169
Deposits on take-over of insured members	3	60
Earnings from investments	81	75
Realized gains from investments	59	138
Miscellaneous	-3	3
Total income	624	750
Expenditure (CHF millions)	2017	2016
Pension payments	-661	-672
Lump-sum payments	-23	-17
Portable sums, home ownership payments	-169	-156
Administrative costs	-4	-4
Payables	10	-199
Total expenditure	-847	-1048
Net cash flow	-223	-298
Cumulative change in asset values	868	
Change in fund value	645	

Based on the result from cash flows (-223 million francs) and taking into account the cumulative change in value of the assets (+868 million francs), the overall increase in the Fund's value in 2017 was 645 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)	31.12.2017	31.12.2016
Liquidity deposits	514	391
Receivables	31	22
Bonds	4040	3844
Shares	3686	3469
Hedge funds and private equity	1598	1468
Infrastructure investments	414	391
Commodity investments	417	670
Mortgages	101	115
Real estate investments	2826	2687
Currency overlay	34	-63
Collateral	-22	-
Total assets	13639	12994
Obligations and deferrals	-42	-32
Net fund value	13597	12962

The composition of assets breaks down as follows:



Liabilities (CHF millions)*	31.12.2017	31.12.2016
Actuarial reserve and technical accruals	11798	11577
Fluctuation reserves	1581	1367
Free funds	218	18
Total liabilities	13597	12962

* Not including obligations and deferrals

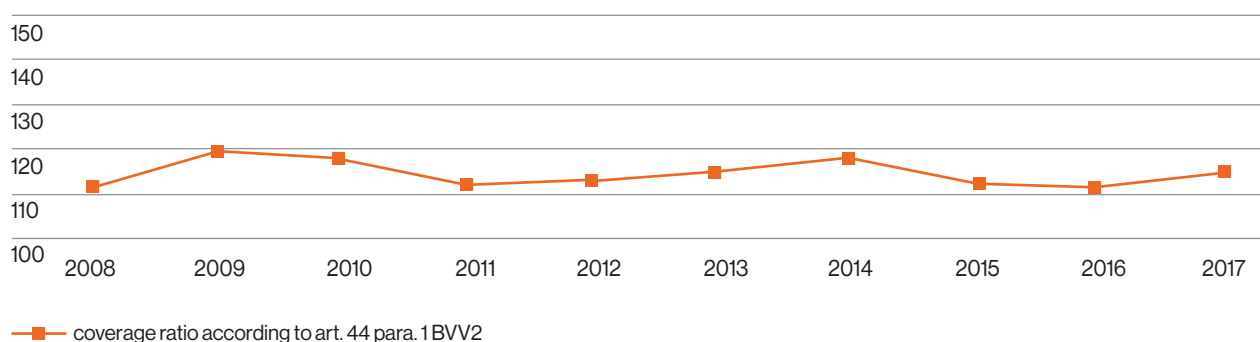
The assets are compared with the required actuarial reserve and technical accruals of 11 798 million francs as per 31 December 2017, calculated in accordance with recognized actuarial principles based on art. 53

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 statutory method of declaration in accordance with art. 44 para. 1 BVV2, the funding ratio amounted to 115.3 percent. This means that the fluctuation reserves are at their target level and that the capacity of Novartis Pension Fund 1 to manage financial risk is unrestricted within the limits of its investment strategy. Also reflected in the funding ratio are the substantial increases of the actuarial re-

serves for pensions over the past years (most recently, by year-end 2017, the actuarial discount rate was adjusted to 2.0%) 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 persistent low interest rate levels and the continuously rising life expectancy.

Development of Funding ratio 2008–2017, in %



Performance 2017

Monetary policy decisions and central bank policies also shaped the way the year ended for the financial markets. In December, there was another increase in interest rates by the US Fed. The Bank of England raised interest rates for the first time in a decade. This gradual normalization was made possible by the prospering global economy. Against the backdrop of the globally broad-based economic upturn, equity investments in particular provided an especially strong performance contribution.

The overall performance of Novartis Pension Fund 1 amounted to +7.66% and thus exceeded the benchmark value (of 7.31) by 35 basis points.

