



1- Macroeconomic Scenario

The outlook for global growth keeps improving. This scenario is benign, but not without risks to the emerging countries, including Brazil.

If better growth in the U.S. is not accompanied by productivity gains, the Fed could increase interest rates earlier than expected, affecting global liquidity and capital flows.

Stronger global activity favors emerging markets, particularly the exporters of manufactured goods. But if financial conditions in the U.S. tighten more quickly than anticipated, the negative effect of lower liquidity could precede the benefits of faster economic growth, especially for fragile economies, which would require weaker exchange rates and tougher monetary and fiscal policies. The specific fundamentals of each country gain relevance in this context.

In the internal scenario, inflationary pressures arising from a still-tight labor market and a weaker currency demand a tighter monetary policy. Fiscal policy remains expansionary.

The Brazilian economy ended 2013 at a slow pace. Industrial activity fell severely in December, and the fundamentals – higher interest rates, undesired inventories, still-subdued business confidence and greater volatility in financial markets – do not suggest a rebound in the short term. As for consumer spending, retail sales remain relatively strong, but here the fundamentals also point to a deceleration ahead. Slower growth in the real wage bill, lower confidence levels among consumers, rising real interest rates and moderate credit expansion are compatible with more modest growth in retail sales this year.

Stronger growth in the G7 nations may be positive for the Brazilian economy. On the other hand, a worse environment for emerging economies at the beginning of the year and the deteriorating economic situation in Argentina are causes for concern.

In structural terms, infrastructure and productivity bottlenecks are still weighing down Brazil's economic potential. An acceleration of concessions to the private sector should help, though the positive impact will only be clearly felt starting in 2015.

Main facts that marked the local market in January:

- **Inflation:** The consumer price index IPCA rose 0.55% in January, slightly below market expectations, driven by smaller changes in food and transportation costs. Year-over-year, the IPCA decelerated to 5.59% from 5.91% in the end of 2013. The market expectation is an inflation of 5.9% in 2014.
- **Interest Rate:** The Brazilian Central Bank's monetary policy committee (Copom) raised the benchmark Selic rate by 50 basis-points to 10.50% in its January meeting. The decision was unanimous. The increase was larger than financial market expected (25 bps). The reason was driven by higher-than-expected inflation in 2013 and by the need to bring inflation to a declining path. The latest expectation is an increase of Selic to 11.25% by the year end.

- **Unemployment Rate:** The unemployment rate stood at 4.3% in December, remaining at a historically-low level. The average rate for the year was 5.4%, virtually unchanged from last year. The conditions in the labor market are still producing real wage gains, as there is no slack or excessive supply of workers. However, the real wage bill is expanding moderately due to the slowdown in job creation, which reinforces the outlook of softer consumer spending growth ahead.
- **Trade Balance and External Accounts:** January ended with a trade balance deficit of USD 4.1 billion, with a decline in manufacturing exports and a widespread increase in imports. Recent developments added another risk to the trade balance in 2014, with further economic slowdown being likely in Argentina, since this country is the main destination for manufactured items made in Brazil. With respect to the external accounts, in 2013 there was a significant deficit increase to 3.7% of GDP (USD 87 bi) from 2.4%. The main source of funding for the current account deficit came from foreign direct investment (FDI), which amounted to USD 64 billion, but not enough to cover the entire deficit.
- **Exchange Rate:** BRL depreciated 3.6% in January and closed the month at 2.43 per USD. Domestic and external uncertainties are bound to weaken the Brazilian real. Abroad, long-term yields in the U.S. could rise further if growth becomes stronger. The perspective of this scenario has already put pressure on the real. In the domestic front, there are uncertainties surrounding economic growth and the fiscal stance this year, which are also factors that pressure the exchange rate.
- **Public Sector Budget:** The December consolidated primary surplus was equivalent to 2.5% of the month's GDP, closing 2013 with 1.9% of GDP, below the result of 2.4% in 2012. In fact, the full-2013 annual primary balance is the lowest on record (the series begin in 2002). It is expected a further decrease to 1.3% in 2014, due to increase in government spending in an election year and lower revenues due to lower GDP growth.
- **Public Debt:** The public sector's net debt stood at 33.8% of GDP in December 2013, versus 35.3% in 2012. Despite the increase of government spending, the main contribution to last year's public debt decline came from the exchange rate depreciation in the period (the current public sector's net external creditor position is a stabilizing factor amid potential external turbulences, which means a very different picture compared to the times when the Treasury had a significant debt exposure to FX rate-linked instruments).

Financial indicators

Indice	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	2014	Last 12m	Last 24m	Last 36m
CDI (interbank deposit)	0,84%												0,84%	8,32%	17,08%	30,70%
IMA-Geral ex-C*	-0,79%												-0,79%	-2,11%	14,25%	31,14%
Ibovespa	-7,51%												-7,51%	-20,30%	-24,49%	-28,46%
IBrX **	-8,15%												-8,15%	-11,24%	-8,05%	-8,88%
Saving Accounts	0,61%												0,61%	6,49%	13,24%	21,68%
USD	3,57%												3,57%	22,01%	39,51%	44,96%
CPI (IPCA)	0,55%												0,55%	5,59%	12,08%	19,05%
IGP-DI (FGV)	0,40%												0,40%	5,62%	14,20%	19,12%
Actuarial Target***	0,73%												0,73%	9,85%	24,61%	36,47%

* Previ Novartis benchmark for fixed income

** Previ Novartis benchmark for equities

*** IGP-DI + 4% p.a.

Source: Itaú-Unibanco, Bradesco, Pesquisa Focus do Banco Central

2- Investments

Investments

Asset Manager	Fixed Income		Equities		Total	
	BRL mio	%	BRL mio	%	BRL mio	%
Bradesco	237,8	33,0%	45,5	6,3%	283,3	39,3%
Itaú Unibanco	148,5	20,6%	29,7	4,1%	178,2	24,7%
Western	215,3	29,9%	43,5	6,1%	258,8	36,0%
Total	601,6	83,5%	118,7	16,5%	720,3	100,0%

Allocation in Equities

	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14
Previ Novartis	22%	22%	22%	19%	19%	19%	17%	17%	18%	17%	17%	17%
Market*	19%	19%	19%	18%	17%	18%	16%	18%	18%	18%	17%	ND

* Source: Club of Investments Towers Watson (median)

3- Performance

Portfolio Previ Novartis - performance by type of investment

Segment	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	2014	Last 12m	Last 24m	Last 36m
Fixed Income	-0,90%												-0,90%	-2,98%	13,90%	31,12%
Equities	-8,19%												-8,19%	-10,80%	-7,03%	-8,38%
Total	-2,16%												-2,16%	-4,42%	9,35%	22,12%

Quota Previ Novartis - net performance

	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	2014	Last 12m	Last 24m	Last 36m
Profitability %	-2,16%												-2,16%	-4,50%	9,22%	21,91%

January was a marked by strong movement of risk aversion and search for "safe assets", known as flight to quality. The perception of deteriorating economic and financial conditions in emerging markets has, once again, the hostage rationality.

In a movement initiated by intense devaluation of the Argentine currency and by the significant rise in interest rates in Turkey, global investors began to question the sustainability of emerging economies in view of the gradual reduction of liquidity initiated by the Federal Reserve (FED) and a perspective of lower growth in China. The strengthening of dollar and falling global stock markets were the main evidences of this process.

In this context, portfolios of fixed income with longer maturity, represented by IMA-B 5+, which better reflect the perception of country risk, showed losses of 3.82% in January. Consequently, the IMA-Geral also ended the month in negative territory, with a return of -0.88%. In equities, the impact of risk aversion was even more significant: IBRX got negative return of 8.13%, as well as the Dividend Index (IDIV) and Small Caps Index (SMML), which ended the month with losses of 7.25% and 8.48%, respectively. Real Estate Funds, represented by IFIX index were also not spared: fell 6.75% in the month.

However, the economic and financial conditions in emerging markets is quite distinct from that observed in the crises from the 90s. While at that time there was a structural weakness that permeated almost all emerging economies, it is now possible to identify countries with a higher degree of resilience. These countries normally combine floating exchange rate regime with low levels of nominal deficit and significant international reserves. This group, in which Brazil is part, is also formed by China, Russia and India. Among those most vulnerable are: Venezuela, Argentina, Ukraine and Turkey.

As a consequence, if global liquidity is worsened, we believe that the problems in emerging markets would be restricted, without the broad proliferation observed in the 90s. However, volatility will not be avoided.

Fonte: Towers Watson Investments

4- Fixed Income

Fixed income performance

Asset Manager	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	2014	Last 12m	Last 24m	Last 36m
Bradesco	-0,76%												-0,76%	-3,17%	14,12%	31,23%
Itaú Unibanco	-0,80%												-0,80%	-1,67%	14,45%	30,84%
Western	-1,12%												-1,12%	-3,55%	13,36%	31,31%
Bench. IMA-Geral ex-C	-0,79%												-0,79%	-2,11%	14,25%	31,14%

Only Bradesco beat the benchmark in January (-0.76% vs. -0.79%), result of the winning strategy in interest rates and exposure to private credit. Itaú's performance nearly equaled with the benchmark. Western is the worst performing asset manager, continuing the trend initiated last year.

According to the Net Quant Investment Club (Towers Watson), the performance of Previ Novartis' fixed income portfolio stood in 21st place among 46 funds with the same benchmark, in the 12-month period (jan13-dec13). Analyzing longer periods, the performance of Previ Novartis was excellent compared to other funds: over the past three years, 4th place among 32 funds; in the last 5 years, 4th position among 26 funds.

5- Equities

Equities performance

Asset Manager	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	2014	Last 12m	Last 24m	Last 36m
Bradesco	-8,15%												-8,15%	-10,06%	-5,48%	-5,12%
Itaú Unibanco	-8,26%												-8,26%	-11,05%	-5,67%	-7,22%
Western	-8,17%												-8,17%	-11,57%	-9,64%	-12,25%
Benchmark IBrX	-8,15%												-8,15%	-11,24%	-8,05%	-8,88%

All asset managers performed close to the benchmark in January.

Bradesco maintains its strategy of selectivity, which has brought good results. Highlight for BB Seguridade (insurance), Mills (infrastructure), Ser Educational (education), Via Varejo (retail) and Marcopolo (capital goods). Positions were reinforced in domestic companies that the asset manager believes be resilient against challenging scenario for Brazil in 2014 (AmBev, Ultrapar and CCR), as well as some exporters.

Itaú had negative performance in January due to the sectors "telecommunications" (exposure below the benchmark) and "industrials" (allocation above the benchmark). Telecommunication companies were the few that performed well, after rumors of consolidation in this segment.

Western performance was also affected by their exposure below the benchmark in telecommunication companies. Another stock that negatively influenced the performance was Sabesp (exposure above the benchmark), which had a bad result due to the postponement of tariff revision and water shortage concerns.

According to the Net Quant Investment Club (Towers Watson), the performance of Previ Novartis' equities portfolio stood in 11st place among 51 funds with the same benchmark, in the 12-month period (jan13-dec13). Over the past three years, 11st place among 33 funds; in the last 5 years, 13th position among 30 funds.

6- Global Performance by asset manager

	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	2014	Last 12m	Last 24m	Last 36m
Bradesco																
Profitability	-1,98%												-1,98%	-4,51%	9,77%	23,19%
Equity allocation*	16,1%												16,1%	16,2%	18,6%	18,6%
Itaú Unibanco																
Profitability	-2,11%												-2,11%	-3,32%	10,23%	22,48%
Equity allocation*	16,7%												16,7%	20,7%	21,4%	21,0%
Western																
Profitability	-2,38%												-2,38%	-5,12%	8,19%	20,62%
Equity allocation*	16,8%												16,8%	19,8%	20,9%	21,5%

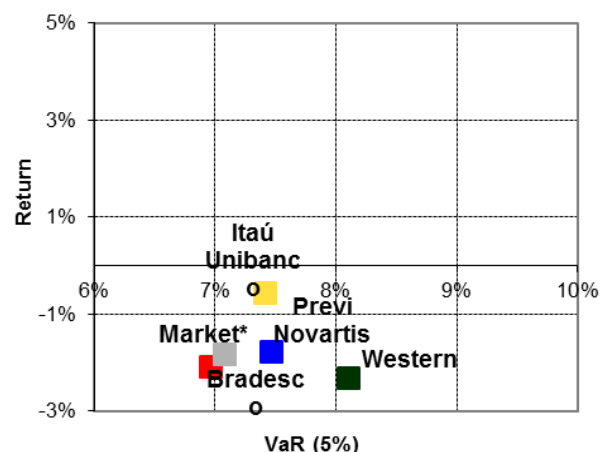
* The asset manager is free to decide the allocation in equities within the limits between 10-25%, according to the current investment policy

7- Risk analysis

VaR (5%) - 12 months (Jan/13 to Dez/13)

Asset Manager	Fixed Income	Equities	Global
Bradesco	6,18%	24,82%	6,96%
Itaú Unibanco	5,97%	25,31%	7,41%
Western	6,74%	27,13%	8,10%
Previ Novartis	6,31%	25,82%	7,47%
Market*	6,00%	25,38%	7,08%

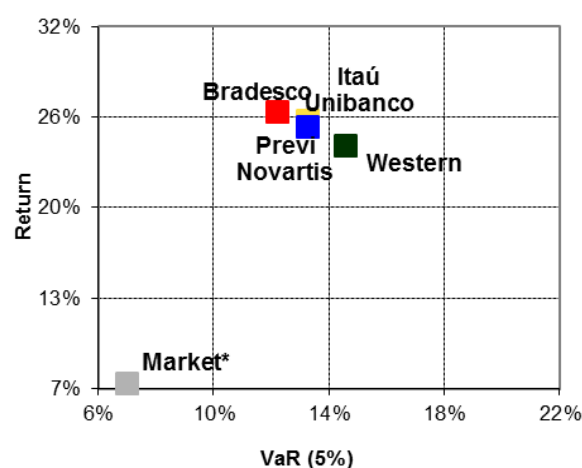
* Source: Club of Investments Towers Watson



VaR (5%) - 36 months (Jan/11 to Dez/13)

Asset Manager	Fixed Income	Equities	Global
Bradesco	7,75%	53,55%	12,21%
Itaú Unibanco	7,72%	54,61%	13,25%
Western	8,30%	58,85%	14,58%
Previ Novartis	7,81%	55,82%	13,26%
Market*	4,25%	31,78%	7,01%

* Source: Club of Investments Towers Watson



8- Information about participants

Sponsors and participants

Sponsors	Active Members	Vesting	Retired members	Total
Novartis Biociências	2.073	312	443	2.828
Sandoz	484	70	9	563
Saúde Animal	119	21	18	158
Gerber*	41	0	0	41
Previ Novartis	0	1	1	2
Total	2.717	404	471	3.592

* In process of withdraw sponsorship.

Active members distribution

Plan of benefits	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14
Plan A	16%	16%	16%	16%	16%	15%	15%	15%	15%	15%	16%	16%
Plan D	84%	84%	84%	84%	84%	85%	85%	85%	85%	85%	84%	84%

Retired members by type of benefits

Payment options	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14
Lifetime annuity	74%	75%	74%	74%	75%	76%	74%	74%	74%	74%	75%	74%
Financial income	26%	25%	26%	26%	25%	24%	26%	26%	26%	26%	25%	26%

** Base at the benefit value.

9- Main projects ongoing

ALM (Asset Liability Management) is ready and just waiting for the approval of PREVIC to be deployed. The total value of the asset to be segregated and the public bonds that will be purchased (by value and maturity), result of the study of cash-flow matching, have already been defined.

"Profiles Investment" project is in advanced stage: selection of asset managers for each asset class.

In line with the process of improving **corporate governance**, in February was held the second training, "Actuarial Module", for members of the executive board and deliberative and fiscal council.