



## 1- Macroeconomic Scenario

**In the external scenario, the period of global recovery and low inflation will last longer. Activity is recovering in the U.S. (despite the Q1) without pressuring inflation, allowing interest rates to remain low for a longer time. Despite a disappointing first quarter in the Euro Zone, the modest economic recovery should continue; the European Central Bank is carrying out a round of monetary easing. Chinese economy is likely to stabilize after the government stimulus package. Positive external environment for emerging markets continues.**

**U.S.: Activity is likely to keep recovering after a weak Q1 with inflation at moderate levels** - Although the GDP has shrunk -2.9% in annual terms in the Q1, the average rate of job creation in the last four months, slow advance of inflation and salary gains, not to mention better consumer confidence, reinforces the theory of recovery in the coming quarters, returning to an average annualized growth of around 3.5%. Despite the positive outlook for the economy, Fed chair Janet Yellen affirmed that interest rates should continue low for a long period and that inflation may remain above the 2.0% target set by the monetary authority for some time, since the labor market has not totally recovered from the 2008 crisis.

**In Europe, the European Central Bank (ECB) announced new stimulus measures for the regional economy that included negative interest rates and a new credit incentive program** - Interest rates were cut from 0.25% to 0.15% p.a. In addition, interest rate of overnight bank deposits fell from 0.0% to -0.1% p.a. This means banks will effectively pay to leave their money deposited at the central bank, which should encourage them to invest these funds in other operations. Besides the interest rate cuts, the ECB surprised with measures to stimulate credit and announcement that it will not sterilize securities purchases in the secondary market anymore. This more accommodative posture accompanies an economy that has been recovering gradually, with forecasts of +1.1% and +1.6% growth in 2014 and 2015, respectively. Moreover, the Bank of England (BoE) signaled a less expansionist posture for monetary policy in the coming months. The basic interest rates (currently at 0.5% p.a.) could be raised sooner than expected, given the current recovery of the British economy.

**In Asia, the Chinese and Japanese economies posted better results for the second quarter** - The PMI confidence indices for the two economies advanced at the end of the quarter, improving the outlook for the period. It is expected a Chinese GDP growth of 7.2% in 2014 and 7.0% in 2015, despite the risks related to real estate sector.

**Moving to the domestic scenario, the 12-month accumulated inflation increased to 6.52% and exceeded the target ceiling. The economic slowdown was more intense, and the government announced measures to stimulate growth. Foreign direct investment remained strong, funding a large part of the current account deficit of 3.6% of GDP. The government posted a significant primary deficit in May. And polls continue to point President Dilma's victory in the run-off.**

**The IPCA consumer price index rose 0.40% in June, accumulating 6.52% in the last 12 months and surpassing the target ceiling** - Most of the upward pressure came from tourism-related services (airfares and lodging), reflecting the Football World Cup. The largest downward pressure came from fresh fruits and vegetables and fuels. Market-set prices rose 7.3% year-over-year, while regulated prices climbed only 3.9% in the same period (fact that contributes to higher inflation in the future).

**The economic slowdown was more pronounced and the government has adopted measures to stimulate growth** - In April, there was a drop in both industrial production and retail sales. Indicators for May were not favorable either, with low job creation (the lowest result for May since 1992) and a sharp decline in business confidence (lowest level since 2009). Stimulus measures announced by the government: a) resumption of the tax incentive program for exporters of manufactured goods ("Reintegra"); b) extension of BNDES program to stimulate the purchase of capital goods ("PSI"); c) the tax amnesty program ("Refis"); d) tax incentives for vehicle purchases; e) measures to stimulate capital market (tax incentives for investment in smaller companies and in debentures issued by the infrastructure sector).

**Unemployment remains low** - The indicator for May has not been announced yet, but it is expected that unemployment has remained at a low level, despite weakness in job creation. The explanation is the labor force has been shrinking since October 2013. However, such dynamics will be exhausted at some point and a moderate increase in the unemployment rate is expected. Sluggish growth in the working population limits growth in real wage.

**Interest rate can be kept unchanged in 2015, despite an increase expected by the market** - Lower-than-expected growth could drive the Central Bank to maintain the Selic Rate at 11% also in 2015. In fact, the last Inflation Report (RI) published by the monetary authority indicated a scenario of stable interest rate ahead. In summary, the report points out that, with the Selic Rate at the current level, the inflation should begin to converge to the target in 2016.

**Current account deficit was 3.6% of GDP in May** - 12-month deficit reached USD 82 billion, vs. USD 73 billion last year. In May, the current account gap stood at USD 6.6 billion, with negative contributions from the service (mainly international travelling and equipment rentals) and income accounts (mainly profit and dividend remittances). Trade balance contributed positively with a surplus of USD 0.7 billion. On the side of the capital account, in contrast, foreign direct investment (FDI) remains strong, financing a large part of the deficit.

**Central Bank actions have contributed to support the Brazilian currency at a stronger level** - The Central Bank announced that its intervention program via currency swaps will be maintained at least until the end of the year, with daily offers of \$200 million, the same amount it had been offering. The announcement helped to sustain the *real* at appreciated levels in recent weeks. We expect the exchange rate to remain range-bound in the coming months, between 2.20 and 2.30, while authorities should adjust the monthly amount for swap rollovers so as to avoid sharp depreciation moves which may jeopardize the fight against inflationary pressures in the short term.

**Brazilian government posts a significant deficit in May** - The public sector posted a negative primary balance of BRL 11 billion in May, emphasizing difficulties to reach the target for 2014. Tax revenues are slowing down, while total expenditures rise faster than GDP. Over 12 months, the primary surplus fell to 1.5% from 1.9% of GDP.

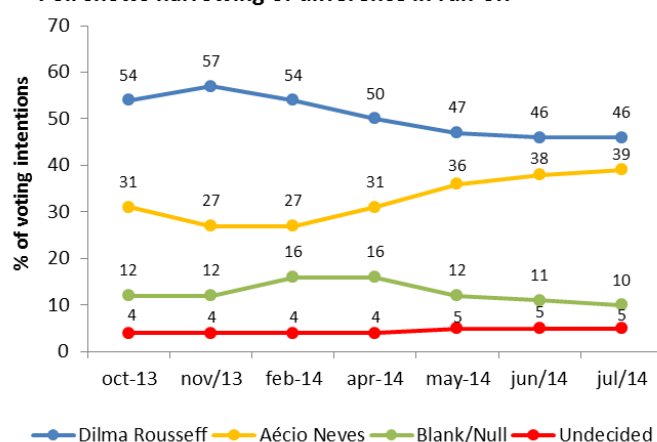
**Latest poll shows some improvement for president Dilma in the first round, but a more difficult victory in the second round** - After registering lower numbers in June, the latest poll released by Datafolha Institute on 2 July showed more favorable figures for Dilma in terms of government approval ratings (35% vs. 33% previously) and voting intentions in the first round (38% vs. 34% previously). In an eventual second round, Datafolha keeps pointing to a reelection for the President, who could beat both Aécio Neves (46% vs. 39%) and Eduardo Campos (48% vs. 35%), but with the lowest margin so far for her in polls.

Datafolha Presidential Election Poll

	20-Feb	03-Apr	08-May	05-Jun	02-Jul
Dilma Rousseff (PT)	44	38	37	34	38
Aécio Neves (PSDB)	16	16	20	19	20
Eduardo Campos (PSB)	9	10	11	7	9
Other candidates	5	6	7	9	9
Abstain	19	20	16	17	13
Did not answer	7	9	8	13	11
<b>2nd Round</b>					
Rousseff x Neves	54 x 27	50 x 31	47 x 36	46 x 38	46 x 39
Rousseff x Campos	55 x 23	51 x 27	49 x 32	47 x 32	48 x 35

Source: Datafolha

Poll shows narrowing of difference in run-off



## Key Macroeconomic Indicators

	2009	2010	2011	2012	2013	2014(f)	2015(f)
<b>GDP</b>							
Real GDP growth	-0,3%	7,5%	2,7%	1,0%	2,3%	1,0%	1,5%
Per capita GDP (USD)	8.469	11.084	12.532	11.279	11.153	10.910	10.751
<b>Labor market</b>							
Unemployment rate (IBGE) -avg	8,1%	6,7%	6,0%	5,5%	5,4%	5,7%	6,0%
<b>Inflation</b>							
IPCA (IBGE)	4,3%	5,9%	6,5%	5,8%	5,9%	6,46%	6,10%
<b>Interest rates</b>							
Selic (end of period)	8,75%	10,75%	11,00%	7,25%	10,0%	11,00%	12,00%
Real interest rate	5,4%	3,7%	4,8%	2,4%	2,2%	4,3%	4,5%
<b>Exchange rate</b>							
BRL/USD (year end)	1,74	1,67	1,88	2,04	2,35	2,40	2,50
BRL/USD (year avg.)	2,00	1,76	1,67	1,95	2,16	2,29	2,45
<b>External sector</b>							
Trade Balance (USD bn)	25,4	20,3	29,8	19,5	2,6	3,9	7,4
- Exports (USD bn)	153,0	201,9	256,0	242,6	242,2	245,0	260,6
- Imports (USD bn)	127,6	181,6	226,2	223,1	239,6	241,1	253,2
Current account (USD bn)	-24,3	-47,5	-52,5	-54,2	-81,4	-80,0	-75,0
Foreign direct investment (USD bn)	25,9	48,5	66,7	65,3	64,0	60,0	55,0
International reserves (USD bn)	239,1	288,6	352,0	379,0	374,0	376,0	376,0
External debt (USD bn)	202,3	255,7	261,5	313,0	323,0	319,0	312,0
Sovereign rating (S&P)	BBB-	BBB-	BBB	BBB	BBB	BBB-	BBB-
<b>Fiscal accounts</b>							
Primary fiscal result (%GDP)	2,1%	2,8%	3,1%	2,4%	1,9%	1,5%	2,0%
Net public sector debt (%GDP)	42,9%	40,4%	36,5%	35,1%	33,8%	35,5%	36,0%

Sources: Itaú, Bradesco, HSBC, Citibank, Datafolha, Focus Survey (Central Bank)

## 2- Monthly 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%	0,78%	0,76%	0,81%	0,86%	0,82%							4,97%	9,66%	17,56%	30,04%
IMA-Geral ex-C*	-0,79%	2,64%	0,69%	1,60%	2,51%	0,80%							7,63%	9,12%	15,25%	35,83%
Ibovespa	-7,51%	-1,14%	7,05%	2,40%	-0,75%	3,76%							3,22%	12,02%	-2,20%	-14,83%
IBrX **	-8,15%	-0,32%	6,89%	2,71%	-1,12%	3,62%							2,99%	12,11%	10,67%	5,69%
Saving Accounts	0,61%	0,55%	0,53%	0,55%	0,56%	0,55%							3,40%	6,74%	13,31%	21,39%
USD	3,57%	-3,83%	-3,02%	-1,19%	0,13%	-1,63%							-5,99%	-0,61%	8,94%	41,05%
CPI (IPCA)	0,55%	0,69%	0,92%	0,67%	0,46%	0,40%							3,75%	6,52%	13,66%	19,24%
IGP-DI (FGV)	0,40%	0,85%	1,48%	0,45%	-0,45%	-0,63%							2,10%	5,79%	12,44%	18,81%
Actuarial Target***	0,73%	1,18%	1,81%	0,78%	-0,12%	-0,30%							4,12%	10,02%	22,20%	35,58%

\* Previ Novartis benchmark for fixed income

\*\* Previ Novartis benchmark for equities

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

## 3- Investments

## Investments

Asset Manager	Fixed Income		Equities		Total	
	BRL mio	%	BRL mio	%	BRL mio	%
Bradesco	265,4	34,1%	42,4	5,4%	307,8	39,5%
Itaú Unibanco	154,5	19,9%	33,3	4,3%	187,8	24,2%
Western	234,5	30,1%	48,2	6,2%	282,7	36,3%
<b>Total</b>	<b>654,4</b>	<b>84,1%</b>	<b>123,9</b>	<b>15,9%</b>	<b>778,3</b>	<b>100,0%</b>

## Allocation in Equities

	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14
Previ Novartis	19%	17%	17%	18%	17%	17%	17%	17%	18%	17%	16%	16%
Market*	18%	16%	18%	18%	18%	17%	16%	17%	17%	16%	15%	ND

\* Source: Club of Investments Towers Watson (median)

## 4- 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%	2,74%	0,65%	1,63%	2,62%	0,57%							7,49%	8,32%	14,76%	35,77%
Equities	-8,19%	-0,46%	6,00%	2,86%	-0,88%	3,83%							2,55%	11,29%	11,84%	6,19%
<b>Total</b>	<b>-2,16%</b>	<b>2,20%</b>	<b>1,58%</b>	<b>1,84%</b>	<b>2,05%</b>	<b>1,08%</b>							<b>6,70%</b>	<b>9,01%</b>	<b>14,39%</b>	<b>29,26%</b>

### 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
<b>Profitability %</b>	<b>-2,17%</b>	<b>2,18%</b>	<b>1,55%</b>	<b>1,83%</b>	<b>2,05%</b>	<b>1,08%</b>							<b>6,63%</b>	<b>8,89%</b>	<b>14,19%</b>	<b>28,99%</b>

Previ Novartis achieved a great performance in the H1 2014, reaching +6.70%, substantially above inflation (3.75%) and actuarial target (4.12%). In June, the return was +1.08%, positive for the fifth consecutive month.

Despite the good performance, it must be clear that the second half will be extremely difficult for the financial market, with many challenges. It is expected a lot of volatility until yearend, mainly due to the electoral scenario.

## 5- Fixed Income

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%	2,56%	0,62%	1,55%	2,48%	0,53%							7,14%	8,43%	14,39%	35,23%
Itaú Unibanco	-0,80%	2,66%	0,71%	1,69%	2,63%	0,60%							7,68%	8,56%	15,60%	35,81%
Western	-1,12%	2,99%	0,63%	1,68%	2,76%	0,60%							7,72%	8,14%	14,68%	36,40%
Benchmark IMA-Geral ex-C	-0,79%	2,64%	0,69%	1,60%	2,51%	0,80%							7,63%	9,12%	15,25%	35,83%

After two months of decline in interest rates, mainly caused by disappointment with the economic activity in Brazil and globally, in June the yields of shorter maturities continued to fall, while the yields of longer maturities rose. In the domestic scenario, two reasons can be identified for this yield curve behavior: a monetary policy perceived as insufficient and very negative fiscal accounts.

The Inflation Report (IR) published by the Central Bank in June states that inflation will remain resistant and above the target until 2016. However, the speech remained "dovish", focusing on the weakness of economic activity and fiscal surplus target as deflationary factors. Thus, it has grown the perception that, in case of continuity of the current government next year, perhaps the Central Bank may not even make a further monetary tightening. Some analysts even began to wonder whether a Selic cut may be possible sometime this year. Despite being a remote possibility, this gives the dimension of the mood that has gripped the market, and that led to the fall of yields for the shorter maturities. Currently, this part of the yield curve embeds 100 basis points increase for Selic rate in 2015.

All asset managers failed to beat the benchmark in June, while in the first half just Bradesco performed below the benchmark (7.14% vs. 7.63%).

According to the Net Quant investment's club, of Towers Watson, the performance of Previ Novartis fixed income portfolio in the period Jan-May 2014 was placed in the 9<sup>th</sup> position among 33 funds with the same benchmark. Analyzing longer periods, the performance of Previ Novartis was excellent compared to other funds: in the last 3 years, in 4<sup>th</sup> position among 22 funds and, in the last 5 years, also 4<sup>th</sup> position among 20 funds.

## 6- Equities

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%	-0,50%	5,95%	2,77%	-0,58%	4,05%							2,94%	10,95%	12,75%	9,71%
Itaú Unibanco	-8,26%	-0,29%	6,25%	2,83%	-0,98%	4,14%							3,06%	12,51%	12,25%	9,05%
Western	-8,17%	-0,54%	5,88%	2,97%	-1,07%	3,42%							1,88%	10,57%	10,46%	0,96%
Benchmark IBrX	-8,15%	-0,32%	6,89%	2,71%	-1,12%	3,62%							2,99%	12,11%	10,67%	5,69%

IBrX rose 3.6% in June to 21,934 points, reversing losses of the year and closing the H1 with appreciation of 3.0%. The inflow of foreign capital at Bovespa continued in June, with USD 1.4 billion, rising the surplus to USD 12.2 billion in 2014. In the U.S. market, the Dow Jones index rose 0.65% to 16,826 points, extending the gains in 2014 to 1.5%.

The international scenario favored maintaining positions of higher risk, due in particular to the FED decision to extend the current monetary policy and the European Central Bank to implement a new round of stimulus. In Asia, the Chinese and Japanese economies have improved in Q2, highlighting the industrial production in China, which reached its highest level since December 2013. In Brazil, the Quarterly Inflation Report reinforced the maintenance of Selic rate at the current level of 11% for 2014, and the government announced "new" measures to stimulate the industrial sector. And with respect to the presidential elections, the growing Opposition kept optimism in the financial market.

In June, higher performance sectors: "Education" (Anhanguera +15.1%, Ser Educational +12.2%, Kroton +9.0% and Estacio +8.8%), due to the merger approval between Kroton and Anhanguera and growth in applications to ENEM this year; "Stock Exchange & Credit Cards" (Cielo +13.7%, Cetip +8.8% and Valid +7.0%) and "Energy" (Eletropaulo +20.2%, Energias do Brasil +15.5%, Cemig +12.2% and CPFL +11.7%). On the other hand, worst performance: "Aviation" (Gol -8.7%), which suffered from higher oil prices in the international market; "Petrochemicals" (Braskem -3.7% and Ultrapar -2.3%), due to the expected weaker results in Q2.

Only Western Asset Management failed to beat the benchmark in June.

According to Net Quant investment club, of Towers Watson, the performance of Previ Novartis equity portfolio was placed in 22<sup>nd</sup> position among 50 funds with the same benchmark, in the period of 12 months (Jun13 – May14). In the last 3 years, in 12<sup>th</sup> position among 34 funds and, in the latest 5 years, in 8<sup>th</sup> position among 29 funds.

## 7- Global Performance per 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
<b>Bradesco</b>																
Profitability	-1,98%	2,00%	1,59%	1,75%	2,03%	1,00%							6,50%	8,61%	14,03%	29,59%
Equity allocation*	16,1%	18,2%	19,0%	15,4%	13,4%	13,8%							16,0%	15,1%	17,6%	18,2%
<b>Itau Unibanco</b>																
Profitability	-2,11%	2,17%	1,61%	1,88%	2,00%	1,20%							6,87%	9,80%	15,22%	30,11%
Equity allocation*	16,7%	16,3%	17,2%	17,5%	17,1%	17,7%							17,1%	18,5%	20,4%	20,6%
<b>Western</b>																
Profitability	-2,38%	2,39%	1,49%	1,90%	2,10%	1,07%							6,67%	8,74%	13,95%	28,07%
Equity allocation*	16,8%	16,3%	17,0%	17,2%	16,7%	17,0%							16,8%	17,8%	19,8%	20,7%

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

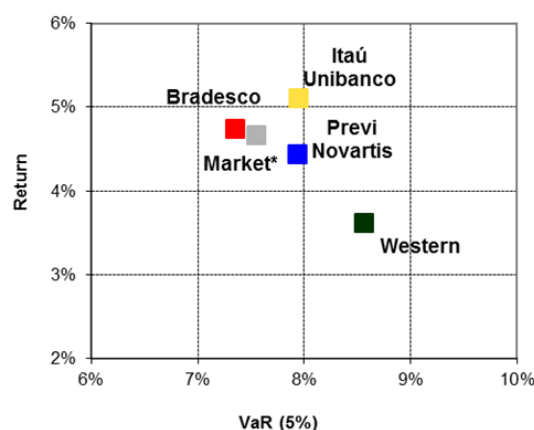
Looking at the overall performance, Itaú has shown a consistent result as the best asset manager, with the best performance in the month, year, last 12, 24 and 36 months.

## 8- Risk Analysis

### VaR (5%) - 12 months (Jun/13 to May/14)

Asset Manager	Fixed Income	Equities	Global
Bradesco	7,00%	24,36%	7,35%
Itaú Unibanco	7,27%	25,75%	7,95%
Western	8,00%	26,72%	8,56%
Previ Novartis	7,43%	25,64%	7,94%
Market*	7,03%	25,31%	7,55%

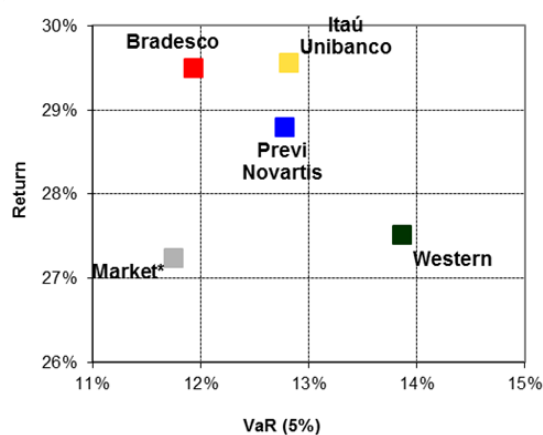
\* Source: Club of Investments Towers Watson



**VaR (5%) - 36 months (Jun/11 to May/14)**

Asset Manager	Fixed Income	Equities	Global
Bradesco	8,57%	48,71%	11,93%
Itaú Unibanco	8,77%	49,78%	12,81%
Western	9,21%	53,90%	13,86%
Previ Novartis	8,72%	50,96%	12,78%
Market*	8,11%	50,21%	11,74%

\* Source: Club of Investments Towers Watson

**Fixed Income exposure**

Pre-Fixed	12%
Post-Fixed	49%
GMPI (IGP-M)	2%
CPI (IPCA)	37%

**Credit risk in fixed income**

Government	60%
Private	37%
Oper. Comprom. + BMF	3%

**9- Information about participants****Sponsors and participants**

Sponsors	Active Members	Vesting	Retired members	Total
Novartis Biociências	2.050	432	440	2.922
Sandoz	440	120	10	570
Saúde Animal	127	23	18	168
Gerber*	0	4	0	4
Previ Novartis	1	0	1	2
<b>Total</b>	<b>2.618</b>	<b>579</b>	<b>469</b>	<b>3.666</b>

**Active members distribution**

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

**Retired members by type of benefits**

Payment options	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14
Lifetime annuity	76%	74%	74%	74%	74%	75%	74%	75%	68%	75%	62%	62%
Financial income	24%	26%	26%	26%	26%	25%	26%	25%	32%	25%	38%	38%

\*\* Base at the benefit value.

## 10- Other Subjects

### ALM and Investment Profiles

Up to 25 July, participants should make the choice of one of four investment profiles: Super-Conservative, Conservative, Moderate and Aggressive.

Participants already retired who receive the benefit in the form of lifelong annuity, must not make choice of profile. The same will happen to participants not retired yet, with respect to the portion of their investments that could become lifelong annuity after retirement. However, these participants should choose the profile for the portion of their investments that are not possible to become lifelong annuity (i.e., investments accumulated after changing the "Plan A" regulation, removing option of lifelong annuity).

Investments related to defined benefit liabilities, which represent risks to the company, will be invested in the fund "ALM", in order to immunize the portfolio.

The internal campaign to inform participants started in June, through lectures conducted by Towers Watson, distribution of leaflets and educational materials, videos, communication in intranet, hallways, elevators, etc.