



1- Macroeconomic Scenario

Warning signs in the global economy: divergences across the world are becoming clearer. Stronger growth in the US and a modest recovery in China sit in contrast to the weaker numbers in continental Europe and parts of Emerging Markets, particularly Latin America.

In the US, the economy grew 4.2% in Q2, confirming the recovery after a weak Q1 caused by a rigorous winter. This result was driven by consumption and investment. Although inflation remains at a low level, the strongest activity performance should lead the Fed (the US central bank) to start discussions about the increase in interest rates, which should begin in the middle of next year. The forecast for GDP growth is 2.0% in 2014 and 3.0% in 2015.

In Europe, the European Central Bank (ECB) surprised with a new round of monetary stimulus. Base interest rates were reduced from 0.15% to 0.05% p.a. Interest rates on deposits, which were already in negative territory, were reduced from -0.10% to -0.20% p.a. These reductions are part of measures aimed at encouraging banks to lend frozen capital, directing it to the credit markets. Furthermore, the ECB announced a new program to buy private assets, injecting money into the market. The forecast for GDP growth was reduced to 0.7% in 2014 and 1.0% in 2015. This largely reflects the worse-than-expected performance in Q2 when GDP stagnated, as well as the impact of geopolitical tensions, particularly economic sanctions against Russia.

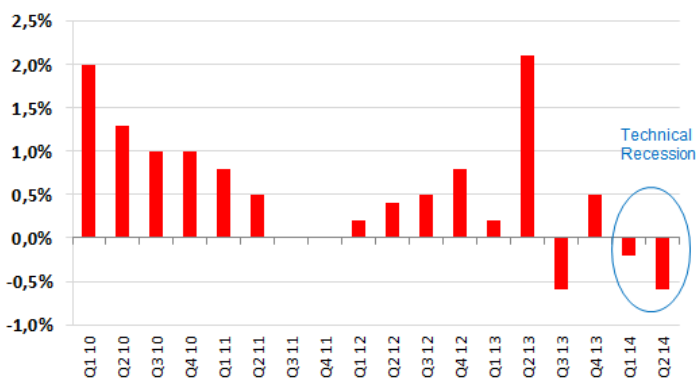
In Asia, Japan and China had lost momentum in their economies. In the Japanese case, GDP contracted 1.7% in Q2, exhausting the 1.5% growth recorded in Q1. The slower activity will push the Japanese Central Bank (BoJ) to adopt a new round of monetary easing in the last quarter of this year to sustain activity. In China, after strong growth in Q2, activity data for July and August surprised negatively, with decline in industrial production, retail sales falling and reduction of investment in fixed assets.

Domestically, the concern with economic activity continues. GDP growth was negative in the first two quarters, leading the country into recession in H1. The deterioration of economic fundamentals caused Moody's to change outlook of Brazil's rating from "stable" to "negative". In the political scene, the latest Datafolha poll shows Dilma Rousseff and Marina Silva tied in the race for the presidential election in October.

GDP growth was negative in the first two quarters – GDP slid 0.6% q/q in Q2 (Q1 GDP was revised downward to -0.2% from +0.2% previously). Year-over-year, GDP contracted 0.9%. Growth over 4 quarters slowed to 1.4% in Q2 (from 2.5% in Q1).

- ⇒ On the supply side, only agriculture posted a moderate rise at the margin (+0.2% q/q). Industrial activity fell 1.5% and the weakness was spread among all industries, except mining.
- ⇒ On the demand side, the main negative highlight was the collapse of investments, which fell 5.3% (fourth consecutive quarterly decline).

Quarterly GDP Growth



2Q14 GDP Breakdown

	Q/Q	Y/Y	12 months
GDP	-0,6%	-0,9%	1,4%
Supply side			
Agriculture	0,2%	0,0%	1,1%
Industrial	-1,5%	-3,4%	0,5%
Services	-0,5%	0,2%	1,6%
Demand side			
Household Consumption	0,3%	1,2%	2,1%
Government Expenditure	-0,7%	0,9%	2,2%
Investments	-5,3%	-11,2%	-0,7%
Exports	2,8%	1,9%	3,4%
Imports	-2,1%	-2,4%	4,2%

Moody’s changes outlook of Brazil’s rating from “stable” to “negative” – The change in Brazil’s Baa2 government bond rating outlook was announced on September 9, reflecting the rising risk that sustained low growth and worsening debt metrics indicate a reduction in Brazil’s creditworthiness. The drivers of the outlook change are:

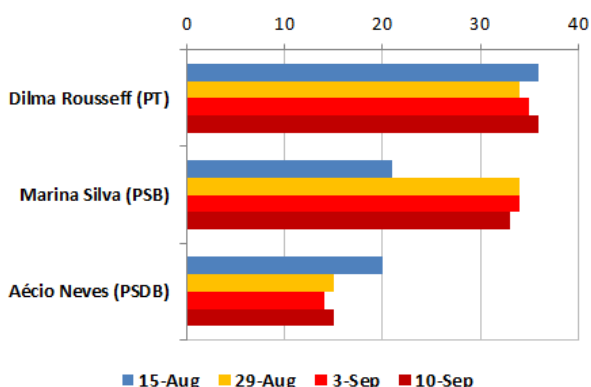
- ⇒ A sustained reduction in Brazil's economic growth, which shows little sign of a return to potential in the near term;
- ⇒ A marked deterioration in investor sentiment which has negatively impacted fixed capital formation in Brazil;
- ⇒ The fiscal challenges these economic headwinds pose, impeding the reversal of the upward trend in government debt indicators

At the same time, Moody's has confirmed Brazil's government bond rating at its current Baa2 level on account of the country's continued resilience to external financial shocks given its international reserve buffers.

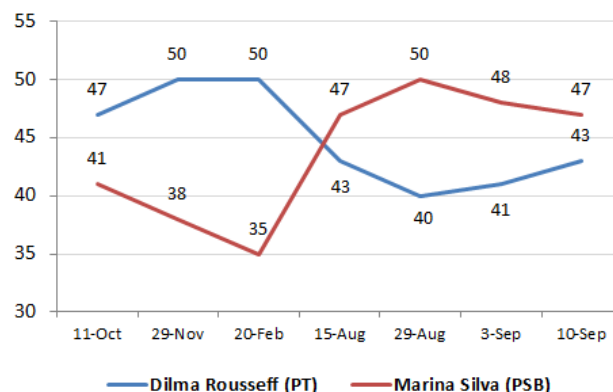
Datafolha poll shows Dilma Rousseff and Marina Silva tied in both rounds of election – The latest Datafolha poll for presidential election was published on September 10 and shows a double tie between Dilma Rousseff (PT – Workers’ Party) and Marina Silva (PSB – Brazilian Socialist Party).

- ⇒ In the 1st round, the president Dilma Rousseff is currently polling at 36% against 33% for Marina Silva – technically a tie, given that the margin of error is two points either way. The senator Aécio Neves (PSDB – Social Democrats) is polling at 15%, while other candidates have a combined total of 4%.
- ⇒ In the 2nd round, polls suggest that Marina Silva would receive 47% of the voting intentions against 43% for Dilma Rousseff – again a technical tie.

1st round scenario



2nd round scenario



Key Macroeconomic Indicators

	2009	2010	2011	2012	2013	2014(f)	2015(f)
GDP							
Real GDP growth	-0,3%	7,5%	2,7%	1,0%	2,5%	0,48%	1,1%
Per capita GDP (USD)	8.469	11.084	12.532	11.279	11.019	10.910	10.751
Labor market							
Unemployment rate (IBGE) -avg	8,1%	6,7%	6,0%	5,5%	5,4%	5,2%	5,7%
Inflation							
IPCA (IBGE)	4,3%	5,9%	6,5%	5,8%	5,9%	6,3%	6,3%
Interest rates							
Selic (end of period)	8,75%	10,75%	11,00%	7,25%	10,0%	11,00%	11,75%
Real interest rate	5,4%	3,7%	4,8%	2,4%	2,2%	4,4%	5,1%
Exchange rate							
BRL/USD (year end)	1,74	1,67	1,88	2,04	2,35	2,33	2,50
BRL/USD (year avg.)	2,00	1,76	1,67	1,95	2,16	2,28	2,44
External sector							
Trade Balance (USD bn)	25,4	20,3	29,8	19,5	2,6	2,0	8,0
- Exports (USD bn)	153,0	201,9	256,0	242,6	242,2	244,0	260,0
- Imports (USD bn)	127,6	181,6	226,2	223,1	239,6	242,0	252,0
Current account (USD bn)	-24,3	-47,5	-52,5	-54,2	-81,4	-81,0	-75,0
Foreign direct investment (USD bn)	25,9	48,5	66,7	65,3	64,0	60,0	56,0
International reserves (USD bn)	239,1	288,6	352,0	379,0	375,8	380,0	380,0
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-
Fiscal accounts							
Primary fiscal result (%GDP)	2,1%	2,8%	3,1%	2,4%	1,9%	1,2%	2,0%
Net public sector debt (%GDP)	42,9%	40,4%	36,5%	35,1%	33,8%	35,0%	36,0%

Macroeconomic Sources: Itaú, Bradesco, HSBC, Citibank, Moody's, 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%	0,94%	0,86%					6,87%	10,10%	18,06%	29,74%
IMA-Geral ex-C*	-0,79%	2,64%	0,69%	1,60%	2,51%	0,58%	1,09%	2,56%					11,35%	13,20%	15,95%	35,68%
Ibovespa	-7,51%	-1,14%	7,05%	2,40%	-0,75%	3,76%	5,00%	9,78%					18,98%	22,53%	7,38%	8,45%
IBrX **	-8,15%	-0,32%	6,89%	2,71%	-1,12%	3,62%	4,46%	9,59%					17,90%	23,83%	23,07%	32,92%
Saving Accounts	0,61%	0,55%	0,53%	0,55%	0,56%	0,55%	0,61%	0,56%					4,61%	6,89%	13,51%	21,20%
USD	3,57%	-3,83%	-3,02%	-1,19%	0,13%	-1,63%	2,95%	-1,23%					-4,41%	-5,62%	9,92%	41,07%
CPI (IPCA)	0,55%	0,69%	0,92%	0,67%	0,46%	0,40%	0,01%	0,25%					4,02%	6,51%	13,00%	18,92%
IGP-DI (FGV)	0,40%	0,85%	1,48%	0,45%	-0,45%	-0,63%	-0,55%	0,06%					1,60%	4,64%	8,81%	17,57%
Actuarial Target***	0,73%	1,18%	1,81%	0,78%	-0,12%	-0,30%	-0,22%	0,39%					4,29%	8,83%	18,06%	33,95%

* Previ Novartis benchmark for fixed income

** Previ Novartis benchmark for equities

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

3- Investments

In August, Previ Novartis initiated the process of restructuring investments, aiming the implementation of ALM (Asset Liability Management) and Investment Profiles. The movement of funds was concluded in the first week of September. In this process, Towers Watson designed a strategy aiming to minimize the impact of withdrawals and new investments. As a result of these movements, August performance presented a deviation from the benchmarks, as expected.

From next month, this report will include a table describing in detail the investment allocated to each asset manager and to each asset class, as well as their performances.

On August 31 the total portfolio of Previ Novartis totaled R\$ 792.1 million vs R\$ 790.7 million on July 31.

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%	1,16%	1,71%					10,59%	12,08%	14,31%	34,42%
Equities	-8,19%	-0,46%	6,00%	2,86%	-0,88%	3,83%	4,20%	7,92%					15,32%	21,26%	21,61%	30,11%
Total	-2,16%	2,20%	1,58%	1,84%	2,05%	1,08%	1,64%	2,71%					11,39%	10,71%	12,53%	29,59%

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 %	-2,17%	2,18%	1,55%	1,83%	2,05%	1,08%	1,64%	2,70%					11,30%	13,58%	15,38%	32,84%

For the 7th consecutive month, Previ Novartis achieved a great performance. The profitability in July reached 2.71% and year-to-date 11.39%, above inflation of 4.02% and actuarial target of 4.29%.

Due to the presidential election approaching, it is expected a lot of volatility in the coming months, which could impact both stock market and fixed income. Excessive volatility is already being perceived in September.

5- Information about participants

Sponsors and participants

Sponsors	Active Members	Vesting	Retired members	Total
Novartis Biociências	2.013	423	454	2.890
Sandoz	440	129	10	579
Saúde Animal	123	24	18	165
Gerber*	0	4	0	4
Previ Novartis	0	0	1	1
Total	2.576	580	483	3.639

Active members distribution

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

Retired members by type of benefits

Payment options	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
Lifetime annuity	74%	74%	74%	75%	74%	75%	68%	75%	62%	62%	77%	77%
Financial income	26%	26%	26%	25%	26%	25%	32%	25%	38%	38%	23%	23%

6- Implementation of ALM (Asset Liability Management) & Investment Profiles

The project implementation was successfully concluded, and the go-live happened on September 1. Following, there is a table summarizing the main differences between the old and new funds. And on the next page, another table with the new structure of investments including the Asset Managers of each investment class.

