Life

Novartis UK Pension Scheme

Newsletter August 2013

Issue 16

An introduction from your Chairperson, Sue Webb

Once again I am pleased to welcome you to this year's edition of "Life", our annual Trustee's Report to members of the Novartis UK Pension Scheme.

This issue covers the year ended 31 December 2012, which was of course the first full year in which all active members of the Scheme earned benefits in the Money Purchase section, following the closure of the Final Salary section to future benefit accrual at the end of 2011.

From an investment point of view, after a fairly subdued 2011, 2012 proved to be a year in which much stronger performance was delivered in most of the world's major equity markets, although other asset classes such as bonds and property produced more modest returns. The Global Equities fund in which most members of the Money Purchase section invest grew by 12.4%, and as a result most people will have seen healthy growth in their Retirement Accounts over the year.

Although active members are now in the Money Purchase section, if you have Final Salary benefits earned before 2012 it remains of vital importance that the Final Salary section continues to be efficiently managed and properly funded. In 2012 the section's income was slightly exceeded by its expenditure, despite the £15 million in extra deficit funding contributions paid in by the Company. However, strong growth in the value of the Scheme's Final Salary investments of over £81.5 million meant that the overall value of the section increased during the year from £742.4 million to nearly £818.7 million, a rise of almost 10.3%.

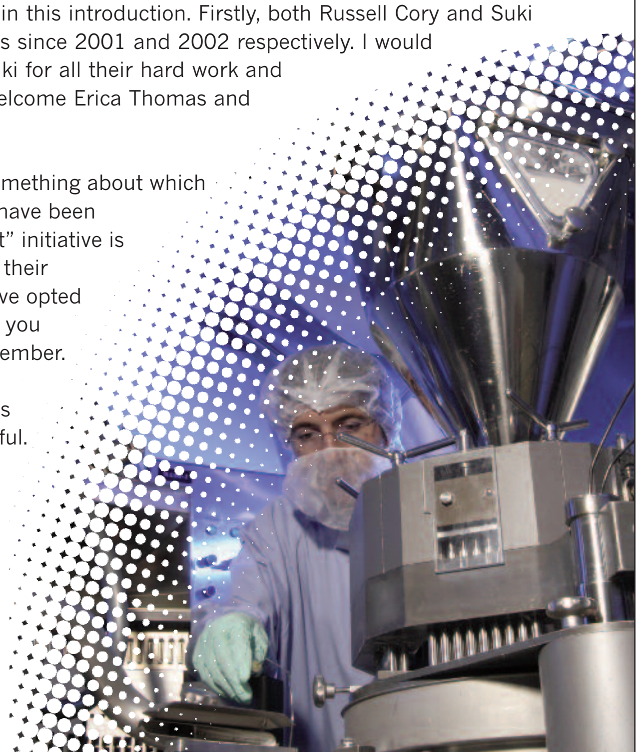
So the value of the Scheme's assets continued to increase in 2012. Whilst this was good news, it must be borne in mind that current conditions mean that the Scheme's liabilities will have increased at the same time. The most important factors at work here are the fact that people generally are living much longer in retirement than they used to (which means that we have to assume that retired members' pensions will need to be paid for a greater number of years) and also the fact that the yield on government bond (gilts) is at a historically low level. The next three-yearly valuation as at 31 December 2012, which compares the Scheme's assets to its liabilities, is currently in progress. At this stage we anticipate that the deficit is likely to be significantly higher than in 2009; we will however report back to members on the detailed results of the valuation in next year's issue of "Life".

There are two other topical matters I would like to mention briefly in this introduction. Firstly, both Russell Cory and Suki Hothi left the Trustee board during 2012, having served as Trustees since 2001 and 2002 respectively. I would like to take this opportunity to sincerely thank both Russell and Suki for all their hard work and commitment to the Scheme over such long periods, and also to welcome Erica Thomas and Shaun Loughran who have subsequently joined the Trustee board.

Secondly, I would like to mention "automatic enrolment". This is something about which you may have seen a lot of media coverage recently, and you may have been wondering if it affects you. The government's "automatic enrolment" initiative is aimed at employers who don't currently offer a pension scheme to their employees, or who offer a scheme but many of their employees have opted not to join it. As a result, I am pleased to say that there is no action you need to take in response to "automatic enrolment" as a Scheme member.

These and many other issues are covered in more detail later in this edition of "Life". As always, I hope you'll find it informative and useful.

Sue Webb, Chairperson of the Trustee Board



NOVARTIS

Scheme Finances

Now that all Scheme members are contributing to and accruing benefits in the Money Purchase section (though most will also have deferred benefits in the Final Salary section), we have decided that it would be a good idea from now onwards to show the finances of the two sections separately.

Final Salary section

	2011	2012
THE VALUE OF THE FUND AT THE START OF THE YEAR WAS	£730,226,391	**£742,376,497**
THE MONEY RECEIVED DURING THE YEAR WAS:		
Normal Company contributions (including member contributions paid through salary sacrifice arrangement)	£12,329,861	**£0**
Additional Company contributions	£15,000,000	**£15,000,000***
Members' Additional Voluntary Contributions	£430,714	**£0**
Transfers-in of individual members' benefits from other schemes	£613,698	**£633**
Other income	£1,656	**£302,276**
Balancing payment from Money Purchase section	£0	**£915,981**
Income from our investments *(dividends, interest etc.)*	£3,309,784	**£5,445,044**
TOTAL INCOME	£31,685,713	**£21,663,934**
THE MONEY PAID OUT DURING THE YEAR WAS:		
Pension payments and annuities purchased	£15,389,764	**£16,489,959**
Tax-free lump sum retirement benefits	£2,936,055	**£5,717,832**
Lump sum benefits on members' deaths in service or in retirement	£442,038	**£420,897**
Reinstatement of State Scheme benefits for members leaving	£6,115	**£95**
Transfers of leaving members' benefits to other schemes	£1,294,021	**£1,812,342**
Investment Management fees	£1,067,820	**£899,184**
Administrative expenses *(including administration, consultancy, actuarial, legal, auditing, etc.)*	£1,330,199	**£1,573,457**
TOTAL EXPENDITURE	£22,466,012	**£26,913,766**
THIS GIVES NET INCOME/(EXPENDITURE) OF	£9,219,701	**(£5,249,832)**
Plus increase in market value of assets	£2,930,405	**£81,547,992**
SO THE VALUE OF THE FUND AT THE END OF THE YEAR WAS	£742,376,497	**£818,674,657**

* Following the actuarial valuation at 31 December 2009, it was agreed that the Company would make extra contributions into the Final Salary section of £15 million each year for nine years commencing in 2011, in order to recover the identified deficit of £96.0 million.

The income and expenditure of both sections in the financial year to 31 December 2012, and other detailed financial information, are given in the formal, audited Trustee's Report and Accounts for the Scheme as a whole. In that document the Scheme's auditors have given an unqualified opinion that the financial statements give a true and fair view of the financial transactions that have taken place, and that Company and member contributions have been fully paid as required. You can ask to see a copy of the Report and Accounts if you wish by contacting the Pensions Manager. The key points are as shown below:

Money Purchase section

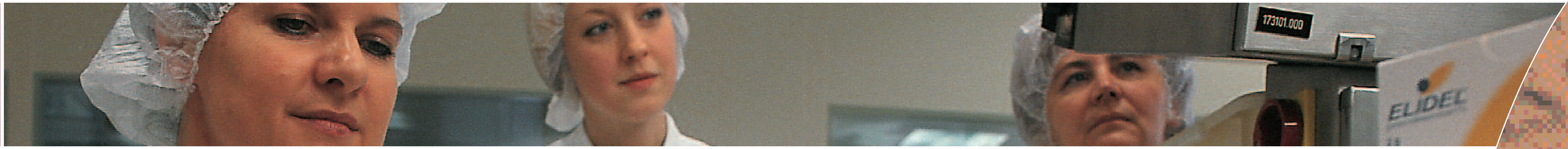
	2011	2012
THE VALUE OF THE FUND AT THE START OF THE YEAR WAS	£49,517,959	**£57,167,662**
THE MONEY RECEIVED DURING THE YEAR WAS:		
Normal Company contributions (including member contributions paid through salary sacrifice arrangement)	£8,183,848	**£16,470,246**
Members' Additional Voluntary Contributions	£550,642	**£1,054,013**
Transfers-in of individual members' benefits from other schemes	£770,317	**£683,063**
Other income	£0	**£253,080**
Income from our investments *(dividends, interest etc.)*	£1,247	**£2,034**
TOTAL INCOME	£9,506,054	**£18,462,436**
THE MONEY PAID OUT DURING THE YEAR WAS:		
Annuities purchased	£27,258	**£426,092**
Tax-free lump sum retirement benefits	£26,956	**£70,204**
Lump sum benefits on members' deaths in service or in retirement	£0	**£254,651**
Reinstatement of State Scheme benefits for members leaving with less than two years' Pensionable Service	£2,672	**£0**
Transfers of leaving members' benefits to other schemes	£1,001,300	**£431,053**
Balancing payment to Money Purchase section	£0	**£915,981**
Investment Management fees	£0	**(£24,234)**
Administrative expenses *(including administration, consultancy, actuarial, legal, auditing, etc.)*	(£14,183)	**£2,242**
TOTAL EXPENDITURE	£1,044,003	**£2,075,989**
THIS GIVES NET INCOME (INCOME LESS EXPENDITURE) OF	£8,462,051	**£16,386,447**
Plus increase/(decrease) in market value of assets	(£812,348)	**£6,197,105**
SO THE VALUE OF THE FUND AT THE END OF THE YEAR WAS	£57,167,662	**£79,751,214**

Scheme membership

Total membership of the Scheme increased to 12,359, a rise of 1,405 on last year (2011 figures in brackets):

Active members - Final Salary section	**0** (1,187)	Members with deferred pensions	**7,396** (5,987)
- Money Purchase section	**2,545** (1,479)	Pensioners and dependants	**2,418** (2,301)

375 new employees joined the Scheme during the year (becoming active members of the Money Purchase section, all of whom we welcome warmly.



Scheme Investment

Final Salary Section

Even though members are no longer paying contributions to or accruing benefits in the Final Salary section of the Scheme, it still received income during the year through Company deficit funding contributions, transfers-in and other miscellaneous income. It paid money out in the form of benefits for retired and leaving members, transfers-out and fees and expenses. The balance was added to the Scheme's assets, which are invested through professional investment managers; here we report on the investment climate which prevailed during 2012, the strategy followed by the Scheme, and the performance which resulted.

Climate

After a fairly subdued 2011, 2012 proved to be a year in which stronger performance was delivered in most of the world's major equity investment markets.

The FTSE All-Share Index in the UK, for instance, rose by 12.3% over the year. In North America the Dow Jones Industrial Average saw growth of around 7.3%. In Continental Europe the DAX index in Germany, for example, gained more than 30%. In Asia the Hang Seng Index in Hong Kong grew by over 23%. And the FTSE World Total Return index increased by 11.8% over the year.

Although the equity markets had a buoyant year, other asset classes produced more modest returns. In the bond markets, UK Government Bonds as measured by the FTSE Gilts All Stocks index rose by 2.7%, and corporate bonds (as measured by the BofA Merrill Lynch Sterling Non-Gilts Index) delivered growth of 13.3%. In property, the IPD UK All Property Index rose by 2.4%.

Strategy

In last year's "Life" we reported that a number of important changes to our investment strategy had been implemented, designed to significantly reduce the volatility of the Scheme's funding and therefore to enhance the security of members' accrued Final Salary benefits. This involved moving towards a lower risk target split of 50% "growth assets" (such as equities and property) and 50% "matching assets" (like bonds, which produce less growth but deliver the more predictable flows of income needed to match the Scheme's pension liabilities).

Further to these changes, during 2012 two new investment managers were added to our team: **Schroders Investment Management** (with effect from 13 September 2012) and **Royal London Asset Management** (from 10 October 2012). As a result, at the end of the year the assets of the Final Salary section were invested through five different investment managers in all:

- Around 61% of the assets were managed by **Legal & General,** partly in "index-tracking" equity funds and partly in "actively managed" corporate bonds.
- **Aviva Fund Management** were responsible for a portfolio of High Lease Value and European property, comprising another 13% of the assets.
- Just under 5% of the assets were managed by **BlueCrest Capital Management,** investing largely in "hedge funds".
- A further 15% of the assets were invested under a Liability Driven Investment mandate through **Schroders Investment Management.**
- The remaining 6% of the assets were invested in a corporate bonds portfolio with **Royal London Asset Management.**

Taking all of these changes into account, the breakdown of the overall portfolio between asset types at the end of 2012 was as follows (31 December 2011 figures in brackets):

UK Equities	**11.0%** (16.0%)
Overseas Equities	**25.5%** (25.5%)
Hedge Funds	**5.0%** (5.0%)
Corporate Bonds	**30.5%** (25.5%)
Index-linked Gilts	**0.0%** (14.5%)
Property	**13.5%** (13.5%)
Liability Driven Investment mandate	**14.5%** (0.0%)

Performance

The Trustee board monitor the performance of our investment managers closely, and assess it by reference to pre-set "benchmarks" which each manager individually is expected to match or exceed:

	2012		Average over last 3 years	
	BENCHMARK	PERFORMANCE	BENCHMARK	PERFORMANCE
Legal & General - Equities	n/a	15.7%	n/a	6.3%
Legal & General - Corporate Bonds	13.1%	13.9%	9.4%	10.4%
Aviva (HLV Property)	3.6%	6.5%	10.9%	7.9%
Aviva (European Property)	3.1%	-1.1%	4.2%	2.7%
BlueCrest	10.0%	6.4%	10.0%	5.7%
Schroder (since 10 September 2012)	7.4%	7.4%	n/a	n/a
Royal London (since 16 October 2012)	1.7%	1.0%	n/a	n/a
TOTAL SCHEME	11.7%	11.8%	8.5%	8.3%

Money Purchase Section

Members can choose between four funds for the investment of their Money Purchase section contributions, AVCs and/or extra contributions from Variable Pay. These are a global equities fund, a fixed-interest government bonds fund, an index-linked government bonds fund and a cash fund (operating like a bank or building society deposit account). At 31 December 2012 these funds had a combined market value of nearly £77.4 million (up from £56.3 million the previous year). The performance of each of the funds during the year to 31 December 2012 was generally in line with the wider markets, as follows:

	2012		Average over last 3 years	
	BENCHMARK	PERFORMANCE	BENCHMARK	PERFORMANCE
Global Equities fund	12.4%	12.6*	6.8%	7.0%*
Fixed-interest bonds fund	2.9%	2.9%*	12.2%	12.2%*
Index-linked bonds fund	0.5%	0.5%*	10.6%	10.6%*
Cash fund	0.4%	0.6%*	0.4%	0.6%*

* Please note these figures are after the deduction of investment management fees.

Investing to build your pension

Your contributions (together with those the Company pays in on your behalf) are paid into a separate "pot" of money in your own name, called your **Retirement Account.** This is then invested, with the objective that it grows in value over time. When you come to retire, the final value your Retirement Account has reached will be used to purchase your pension benefits. Clearly, then, the decisions you make as to how your Retirement Account is invested are extremely important. They can potentially make a substantial difference to the amount of pension you'll receive, and therefore to your standard of living in retirement.

That's why it's so important to make your investment decisions very carefully, and then to review those choices on a regular basis. You need to consider your personal circumstances and your retirement needs, and recognise that these will change during your working life:

- **Think about when you might want to retire -** although the Scheme's Normal Pension Age is 65, you can normally take your pension at any time from age 55 onwards. The earlier you retire, of course, the less time you'll have to save, so the more you'll need to invest each month.
- **Consider how much income you'll need -** do a budget to work out how much income will give you a comfortable retirement.
- **Review your other pension savings -** will your pension from the Money Purchase section be your sole source of retirement income, or do you already have some deferred pension in the Final Salary section of the Scheme, a previous employer's scheme, other investments or the State Pension?
- **Consider how much your pension benefits from the Money Purchase section are currently projected to be -** see your most recent Benefit Statement.
- **Evaluate whether your currently projected retirement income (including that from your other pension savings) will be sufficient to meet your retirement needs -** or if you need to generate more.
- **Decide how to invest your Account -** this will depend on how much pension income you need to generate, your attitude to risk, and how far you are away from retirement. For example, if you are many years away from retirement you may decide you can afford to take more risk and invest in the equities fund. But if you are very close to retirement you may wish to protect the Account you've already built up by investing in the less risky bonds or cash funds.
- **Monitor your Retirement Account regularly -** is your pension on track (study your Benefit Statement closely each year); are there any changes to your retirement needs; are you saving enough; are your contributions invested in the right funds.

You can either select just one of the four funds, or you can spread your contributions between them in any combination. You can switch funds/combinations from 1 January in any year, by completing a Change of Investments Form which you can obtain from the Scheme's administrators. If you need further information, please refer to your Membership Handbook or to the booklet "A Guide to Additional Retirement Savings" (also obtain from the administrators). You may also wish to consider seeking independent financial advice.

Your Pensions Team

Your Trustee board

The Scheme's Trustee is Novartis UK Pension Scheme Trustees Limited and the members of the Trustee board are Directors of this company. Richard Farrar (Pensions Manager) is Secretary to the Trustee board. The Trustee board met formally three times during 2012. There were a number of changes to the Trustee board during the year:

- **Sue Webb** resumed the role of Chairperson. She had stepped down from this position at the end of 2009, to enable the Trustee board to discuss the Company's proposal to end future benefit accrual under the Final Salary section of the Scheme uninfluenced by any conflict between Sue's Trustee and Company roles.
- As reported last year, **Russell Cory** resigned with effect from 2 March 2012 on moving to a new position with Novartis in Singapore. He was replaced by **Erica Thomas,** Human Resources Director, who joined the Trustee board with effect from 1 March 2012.
- **Suki Hothi** resigned as a Member-nominated Trustee at the end of the year. Suki had been a member of the Trustee board since 2002, and we would like to sincerely thank her for all her hard work and commitment to the Scheme over such a long period. The process for selecting a new Member-nominated Trustee to take Suki's place will commence in the coming weeks.
- **Shaun Loughran,** who is Head of Finance at NIBR, was appointed as a Company-nominated Trustee from 1 June 2012. We welcome Shaun to the Trustee board and wish him an enjoyable and productive period of office.

Following these changes, the full Trustee board is now as follows:

Company-nominated	Member-nominated
Sue Webb (Chairperson)	Graham Dumbleton
Shaun Loughran	Andrew Roberts
Philip Lowndes	Vacancy
Helen Roberts	
Erica Thomas	

Professional Advisers

Apart from the addition of two new investment managers (as reported on page 4), our advisers were unchanged from the previous year and were:

Actuarial Consultants	Mercer
Scheme Administrators	Equiniti Paymaster (name changed from Xafinity Paymaster)
Investment Managers	Legal & General; Aviva Fund Management BlueCrest Capital Management Royal London Asset Management (from 10 October 2012) Schroder Investment Management (from 13 September 2012)
Investment Advisers	Mercer
Investment Custodians	HSBC Global Investor Services
Auditors	Deloitte
Solicitors	DLA Piper UK
AVC Providers	Equitable Life; AMP; Standard Life; Schroder
Bankers	Lloyds

Newsdesk

Changes to HMRC Allowances

In the Chancellor's autumn statement last October, two further changes were announced to the HM Revenue & Customs limits on pension contributions and benefits. Any contributions you make or benefits you earn which are in excess of these limits will incur substantial extra tax charges.

- The **Lifetime Allowance** applies to the total size of your pension fund earned from all sources over your working life. This includes the value of your pension from the Novartis Scheme, any previous employers' schemes, AVCs and any personal pension arrangements, but excludes your State pension entitlement. Currently the level of the Lifetime Allowance is £1.5 million, **but from the tax year 2014/15 onwards this will be reduced to £1.25 million.**
- The **Annual Allowance** applies to the total amount of pension savings you can make in any year. This includes the amount of your contributions to the Scheme; the amount of contributions the Company pays into the Scheme on your behalf; the amount you pay in Additional Voluntary Contributions or from your Variable Pay; and the amount of any contributions you make to personal pension arrangements outside the Scheme. Currently the amount of this Allowance is 100% of your earnings or £50,000, whichever is the lower, **but from 2014/15 this latter figure will be reduced to £40,000.**

If you think you may be affected by either of these changes, please contact the Scheme's administrators for further information.

Pension Input Period

In order to measure your pension savings against the Annual Allowance in a particular tax year, it is necessary to look at the savings made in what is known as the "pension input period" that ends in the tax year in question. In a money purchase scheme, your savings are measured by the total contributions paid in the relevant period. In relation to your membership of the Novartis Scheme, your "pension input period" is a calendar year and therefore runs from 1 January to 31 December inclusive each year. For example, this means that when assessing your savings in the Scheme against the Annual Allowance for the 2013/14 tax year, the relevant savings are those made from 1 January 2013 to 31 December 2013. This is because 1 January 2013 to 31 December 2013 is the "pension input period" that ends in the 2013/14 tax year.

If you join the Scheme part way through a calendar year, your first "pension input period" for the Scheme will commence on the date that a member or employer contribution is first paid to the Scheme by, on behalf or in respect of you and will end on the next 31 December and will therefore be shorter than a calendar year. Your subsequent "pension input periods" will be calendar years.

MEET THE ADVISERS

No. 3 - Scheme Actuary - Jenny Condron, Mercer

Continuing our series of profiles of the professional advisers who help us run the Novartis Scheme, in this issue we focus on the Scheme's Actuary, Jenny Condron of Mercer.

Mercer were appointed as our actuarial consultants when the Scheme started in 1997. They are one of the world's largest pension consultancy firms, and are global consulting leaders in talent, health, retirement, and investments with more than 27,000 clients worldwide. In the UK, Mercer advise 70% of the FTSE 100 companies. Our previous Scheme Actuary, John Betts, retired in December 2012 having advised the Scheme's Trustee board since 1997, and we would like to take this opportunity to wish him a long and happy retirement. After considering a number of possible candidates from Mercer, the Trustee board asked Jenny to take over John's role. Jenny is a Mercer Partner and has 22 years' pensions industry experience. She qualified as a Fellow of the Faculty of Actuaries in 1994 and has worked for Mercer throughout her career. We asked Jenny to tell us a little about herself and her role:

"Like many actuaries, I have always loved maths and studied it at university. I knew before I left school that an actuarial career might be for me - it uses lots of maths and statistics, is quite challenging (you have to pass a number of exams after you start work before you become a qualified actuary). Not many people make it through all of the exams, so we're quite a rare breed!

"Actuaries work in a broad range of areas such as pensions, investments, general and life insurance. I chose to specialise in pensions and spend most of my time advising companies and pension scheme trustees on their pension arrangements. The key is helping those involved to understand how much money is needed to meet the pension promises given to members. We consider how the Scheme's assets are invested, what members' benefit promises are and how long these are expected to be paid for. Unfortunately, I can't tell how long everyone will live for, but we now have lots of data and models which help us to make a well informed guess!

"The Trustee board of the Novartis Scheme, like all pension scheme trustees, have to review the financial position of their Scheme every three years. Whilst they monitor the position regularly in between, a detailed analysis of the membership data and benefits must be conducted and the outcomes sent to the Pensions Regulator. This includes telling the Regulator how much money the Trustee board has agreed with the Company will be paid to make good any shortfall that is identified.

"The latest detailed assessment fell due at 31 December 2012 and this will be my first major task for the Trustee board. It is also the first valuation of the Scheme being conducted since the Scheme closed to final salary benefit accrual last year. The valuation involves collecting together all the member data and putting a current value on how much the benefits payable to the members will cost the Scheme (its "liabilities"). It is expected that there will not be enough assets to meet all of the liabilities (also the case for the last valuation at 31 December 2009) and the Trustee must then discuss and agree with the Company how much it can afford to pay towards the deficit each year and for what period. We also advise the Trustee board on all its statutory duties, to ensure that all relevant legislation is adhered to."

Newsdesk

"Automatic Enrolment"

You've probably seen a lot of TV and press advertising recently with people saying "I'm in", talking about "automatic enrolment" in workplace pension schemes. You may have been wondering if or how this affects you.

Well, the answer is that as a member of the Novartis Scheme, it doesn't affect you at all.

The government's automatic enrolment initiative is aimed at employers who don't currently offer a pension scheme to their employees, or who offer a scheme but many of their employees have opted not to join it. Those employers will now have to put in place a basic, low cost scheme and "automatically enrol" all their employees into it (though those employees will subsequently be able to opt out if they actively decide that they don't wish to be members).

At Novartis, of course, we already provide a Scheme which is far superior to a basic "auto-enrolment" arrangement, and all our employees are automatically included in this when their employment starts. They can of course opt out of the Scheme subsequently, but we are pleased to say that only a tiny number of people have chosen to do this and that our membership level is almost 100%. There is no action you need to take in response to "automatic enrolment" as a Scheme member - you're "already in".

2013 pension increases

For pension earned in respect of Pensionable Service built up after 5 April 1997, an increase for all pensioners of 2.6% was automatically applied from 1 April 2013 (in line with the increase in the Retail Prices Index to the previous September).

YOUR STATE PENSION

In addition to your Novartis pension, you will normally receive the **State Basic Pension** as well in your retirement. The full rates (effective 6 April 2013) at which the State Basic Pension is paid, if you have paid the required amount of National Insurance contributions during your working life, are £5,727.80 per year (£110.15 per week) for a single person and £9,159.80 per year (£176.15 per week) for a married couple.

You may also receive the **State Second Pension (S2P),** which is an earnings-related pension on top of the State Basic Pension. This will depend on how many years during your working life you have been "contracted-in" to S2P (which you are as a member of the Scheme's Money Purchase section) rather than "contracted-out" (which you were if you were a member of the Final Salary section prior to 31 December 2011).

From April 2016, the Government is planning that for everyone reaching State Pension Age from that date S2P will be abolished, and that they will instead receive a **universal, single-tier State pension** of around £144 per week in today's money.

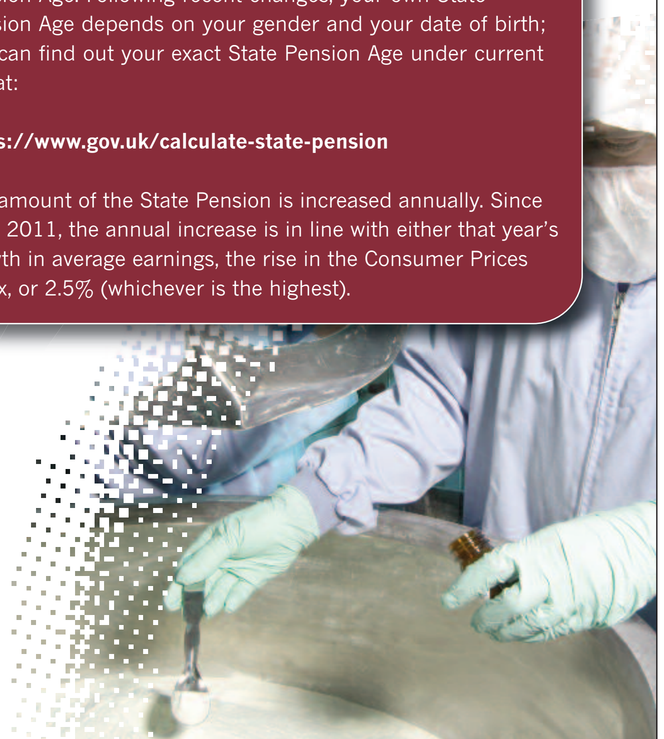
You can obtain an online forecast of how much State Pension you are currently likely to receive (prior to the change to the single-tier pension) at:

https://www.gov.uk/state-pension-statement

Your State Pension will commence when you reach State Pension Age. Following recent changes, your own State Pension Age depends on your gender and your date of birth; you can find out your exact State Pension Age under current law at:

https://www.gov.uk/calculate-state-pension

The amount of the State Pension is increased annually. Since April 2011, the annual increase is in line with either that year's growth in average earnings, the rise in the Consumer Prices Index, or 2.5% (whichever is the highest).



For more information

If you have a query about any aspect of your Scheme membership, you should in the first instance (since they hold your personal records) contact the Scheme's administrators, Equiniti Paymaster. Their contact details are as follows:

Novartis UK Pension Administrators, Equiniti Paymaster, Sutherland House, Russell Way, Crawley, West Sussex, RH10 1UH. Direct helpline: 01293 603047 Email: novartis@equiniti.com

NOVARTIS

Written, designed and produced by Summerhill Communication Agency Ltd, York, August 2013.