Novartis UK Pension Scheme
Newsletter September 2015
Issue 18

Life

An introduction from your Trustee board

In welcoming you to this year's edition of our annual "Life" newsletter, the first thing we need to tell you is that Sue Webb has ceased to be Chairperson of the Trustee board with effect from 1 September 2015, on leaving the Company. We would like to express our sincere thanks to Sue for her contribution and commitment to the Scheme during her six years as Chair, and we are sure all members will want to join us in offering Sue our very best wishes for her future endeavours.

This issue of "Life" covers the year ended 31 December 2014, and from an investment point of view, after a year of strong returns in 2013 from the equity markets, but a much more subdued climate in the bond markets, the position was somewhat reversed in 2014 (as described on page 6 of this newsletter). In line with this trend the Global Equities fund in which most current Scheme members were invested from the beginning of the year until 31 August, and the High Growth, High Risk Fund which replaced it from 1 September, delivered only modest growth over the year as a whole.

Although all current members now earn benefits in the Money Purchase or Defined Contribution (DC) section of the Scheme, if you have Final Salary or Defined Benefits (DB) benefits earned before 2012 it remains of vital importance that the DB section continues to be efficiently managed and properly funded. In 2014 the DB section's income again comfortably exceeded its expenditure, largely due to the Company's extra contributions of more than £29.7 million as agreed following the 2012 actuarial valuation. Added to exceptional growth in the value of the Scheme's DB investments of over £160 million, this meant that the overall value of the section increased by more than 21% during the year, to reach a figure of over £1 billion for the first time.

Whilst this further rise in the value of the Scheme's assets was good news, it must be borne in mind that the Scheme's liabilities continued to increase at the same time. As described in the Summary Funding Statement issued recently, an actuarial update at 31 December 2014 indicated that the deficit (£247.0 million at the 2012 full valuation), which had fallen to £172.0 million in 2013, had increased again to £225.6 million during 2014. This was largely due to a material fall in gilt yields resulting in a higher value being placed on the Scheme's liabilities, thus increasing the deficit despite the Company's extra contributions and the unexpectedly high investment returns. The next three-yearly full valuation will be carried out at 31 December 2015, and this will provide a fully up-to date picture of the Scheme's longer term financial position.

There are two other topical matters we would like to mention briefly in this introduction. Firstly, Andrew Roberts left the Trustee board during the year on leaving the Company as a result of the closure of the Horsham site, having served as a Member-nominated Director since 2004. We would like to take this opportunity to thank Andrew sincerely for all his hard work and commitment to the Scheme over such a long period and wish him every success for the future.

Secondly, as far as the wider pensions world is concerned it would not be an overstatement to say that 2014 was rather a momentous year. As you are almost certainly aware, major changes were announced in the March 2014 Budget (and came into effect in April 2015) giving much greater flexibility and choice to members of DC pension schemes (like the DC section of the Novartis Scheme) over how they can use their pension savings at retirement. We issued a Bulletin to members on this subject in May 2014, and an update to this was published recently (see page 5 of this newsletter).

As your Trustee board we will of course continue to monitor closely all developments which affect the Scheme and your benefits and, as ever, we hope you will find this edition of "Life" useful and informative.

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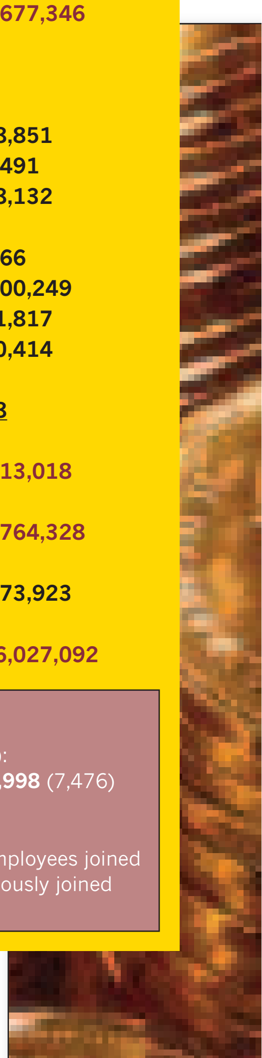
Scheme **Finances**

Since all Scheme members are now contributing to and accruing benefits in the DC section (though most will also have deferred benefits in the Final Salary section), we are now showing the finances of the two sections separately. The key points are as follows:

Defined Contribution section

	2013	**2014**
THE VALUE OF THE FUND AT THE START OF THE YEAR WAS	£79,751,214	**£112,288,841**
THE MONEY RECEIVED DURING THE YEAR WAS:		
Normal Company contributions (including member contributions paid through salary sacrifice arrangement)	£16,762,742	**£15,759,310**
Members' Additional Voluntary Contributions	£1,390,215	**£2,792,076**
Transfers-in of individual members' benefits from other schemes	£888,246	**£853,117**
Other income	£154,848	**£270,296**
Income from our investments *(dividends, interest etc.)*	£2,940	**£2,547**
TOTAL INCOME	£19,198,991	**£19,677,346**
THE MONEY PAID OUT DURING THE YEAR WAS:		
Annuities purchased	£425,652	**£318,851**
Tax-free lump sum retirement benefits	£108,000	**£52,491**
Lump sum benefits on members' deaths in service or in retirement	£257,741	**£308,132**
Contributions refunded in respect of members leaving with less than two years' Pensionable Service	£1,340	**£9,466**
Transfers of leaving members' benefits to other schemes	£910,003	**£1,200,249**
Transfer to Final Salary section	£1,398,409	**£831,817**
Investment Management fees	£95,607	**£190,414**
Administrative expenses *(including administration, consultancy, actuarial, legal, auditing, etc.)*	£263	**£598**
TOTAL EXPENDITURE	£3,197,015	**£2,913,018**
THIS GIVES NET INCOME (INCOME LESS EXPENDITURE) OF	£16,001,976	**£16,764,328**
Plus increase in market value of investments	£16,535,651	**£6,973,923**
SO THE VALUE OF THE FUND AT THE END OF THE YEAR WAS	£112,288,841	**£136,027,092**



Scheme membership

Total membership of the Scheme increased to 12,808, a rise of 247 on last year (2013 figures in brackets):

Active members	**2,138** (2,518)	Members with deferred pensions	**7,998** (7,476)
Pensioners and dependants	**2,672** (2,567)		

While 751 active members left the Scheme (primarily due to the closure of the Horsham site), 403 new employees joined during the year, all of whom we welcome warmly. A proportion of these were employees who had not previously joined the Scheme but became members under the Government's automatic enrolment initiative.

The income and expenditure of both sections of the Scheme in the financial year to 31 December 2014, 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.

Final Salary section

	2013	**2014**
THE VALUE OF THE FUND AT THE START OF THE YEAR WAS	£818,674,657	**£860,597,024**
THE MONEY RECEIVED DURING THE YEAR WAS:		
Normal Company contributions (including member contributions paid through salary sacrifice arrangement)	£0	**£0**
Additional Company contributions	£18,994,000	**£29,704,002***
Transfers-in of individual members' benefits from other schemes	£787	**£569**
Other income	£63,232	**£617**
Transfer from DC section	£1,398,409	**£831,817**
Income from investments *(dividends, interest etc.)*	£14,309,716	**£20,356,300**
TOTAL INCOME	£34,766,144	**£50,893,305**
THE MONEY PAID OUT DURING THE YEAR WAS:		
Pension payments and annuities purchased	£18,200,941	**£19,797,909**
Tax-free lump sum retirement benefits	£5,330,389	**£4,184,597**
Lump sum benefits on members' deaths in service or in retirement	£322,590	**£189,658**
Reinstatement of State Scheme benefits for members leaving	£14,528	**£87**
Transfers of leaving members' benefits to other schemes	£5,709,750	**£2,000,361**
Investment Management fees	£1,486,940	**£1,879,141**
Administrative expenses *(including administration, consultancy, actuarial, legal, auditing, etc.)*	£1,848,486	**£1,255,595**
TOTAL EXPENDITURE	£32,913,624	**£29,307,348**
THIS GIVES NET INCOME (INCOME LESS EXPENDITURE) OF	£1,852,520	**£21,585,957**
Plus increase in market value of investments	£40,069,847	**£160,273,530**
SO THE VALUE OF THE FUND AT THE END OF THE YEAR WAS	£860,597,024	**£1,042,456,511**

* This included £29.7 million in extra contributions which, following the actuarial valuation at 31 December 2012, it was agreed the Company would make between 1 July and 31 December 2014, as part of the plan to correct the identified deficit of £247 million by 2025.

Defined Contribution section

Investment report

Since 1 September 2014, members have been able to choose between two investment routes, **FREESTYLE** and **LIFESTYLE**.

If you select the **FREESTYLE** route, you can choose from the following range of four funds:

- **High Growth, High Risk -** invested in equities, currently 30% in the UK and 70% overseas.
- **Moderate Growth, Moderate Risk -** invested in a diversified growth portfolio consisting of equities, bonds, property and commodities.
- **Low Growth, Low Risk -** invested in index-linked and corporate bonds.
- **Cash -** invested in a diversified range of short term money market instruments via government and financial institutions, aiming to provide capital protection.

If you select the **LIFESTYLE** route, your Retirement Account is invested 100% in the High Growth, High Risk Fund until you are 15 years from your normal/target retirement age. Between 15 and 7 years from retirement it will be switched gradually into the Moderate Growth, Moderate Risk Fund. Finally, in the last 7 years leading up to your retirement your Account will be moved on a gradual basis into a combination of the Low Growth, Low Risk and Cash Funds.

At 31 December 2014 the four funds had a combined market value of £129.1 million. The performance of each of the funds during the period from their introduction (using 31 August 2014 as the start date) to 31 December 2014 was as follows:

	BENCHMARK	PERFORMANCE
High Growth, High Risk	1.1%	1.2%*
Moderate Growth, Moderate Risk	3.4%	1.7%*
Low Growth, Low Risk	4.9%	4.9%*
Cash	0.1%	0.2%*

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

Prior to the introduction of the new funds, around 87.5% of the DC section's assets were invested in the Global Equities fund, and all of these will have been switched into the High Growth, High Risk Fund unless individual members requested otherwise.

The new pension flexibilities

You'll have received a Bulletin from us recently about the far-reaching changes affecting DC pension schemes which came into effect on 6 April 2015.

Without repeating the details here, these changes give you greater freedom and flexibility in accessing your savings on retirement, by removing the requirement to always use your Retirement Account to purchase a lifetime pension (known as an "annuity"). You now have additional options which may include Income Drawdown and Cash Withdrawal.

These new options are explained in greater detail in a **Factsheet** and a **Guide to Retirement Options** which you can find on the member website at **https://novartis.xpmemberservices.com.** In addition, the Government has introduced a service through which you can obtain free and impartial guidance called **Pension Wise (www.pensionwise.gov.uk, tel: 030 0330 1001).**

Pension wise
Your money. Your choice.

Monitor your Account online

You can check where your Account is currently invested and how it has performed via our highly secure member website at:

https://novartis.xpmemberservices.com

or on your 2015 Personal Benefit Statement which you will be receiving shortly.

All the investment options are described fully in a leaflet entitled **Your Investment Routemap** which you can obtain via the member website if you haven't already got one. The website has lots of other useful content and enables you to:

- follow the progress of your Retirement Account in the DC section and, if you're a former member of the Final Salary section, keep track of your deferred pension.
- monitor your current investment fund choices, allowing you to alter these if you wish - remember that if you've selected the **FREESTYLE** route you can either select just one of the four investment funds, or you can spread your contributions between them in any combination you wish. Subsequently you can switch funds/combinations annually throughout your membership - you are not locked into your initial investment decisions.
- obtain illustrations of your projected fund value at your target retirement date (which can currently be any birthday from your 55th) and see the effect of paying AVCs or changing your target retirement date.
- access all the Scheme's literature including Membership Handbook, Guide to Additional Retirement Savings, "Life" newsletters, etc, and download all the forms you may need during your membership such as Change of Investments, Expression of Wish, Election to Opt Out, etc.

The value of investment funds can go down as well as up; returns cannot be guaranteed, and it is important to remember that past performance is not necessarily a guide to future performance. Which investment fund(s) are the right ones for you depends upon your individual circumstances, and under the Financial Services & Markets Act 2000, neither the Company nor the Trustee board are authorised to give you specific advice on which options you should select. Consequently, before making your investment decisions you may wish to seek independent financial advice. You can find an adviser in your area by visiting the IFA Promotions website: www.unbiased.co.uk.

Scamproof your pension savings

The new pension freedoms referred to opposite mean that a whole host of companies have come into the market, eager to get their hands on DC scheme members' newly-flexible pension pots.

Of course, most of these providers are long-established and perfectly legitimate, offering drawdown, annuity or investment products that are ideal for peoples' retirement needs.

But - as is always the case - a new, potentially lucrative market like this also attracts its share of clever, manipulative scammers and criminals, desperate to trick unwary people out of a lifetime's hard-earned pension savings.

So how can you tell the difference? What are the warning signs? These are some of the most common tactics to look out for:

- unsolicited cold calls, emails, text messages, website pop-ups or doorstep callers
- approaches offering you the opportunity to access your pension before you reach age 55
- offers of a "free pension review", a "one-off investment opportunity", the chance to exploit a "legal loophole", or "loans" against your pension
- claims that the caller is "authorised by the government"
- being rushed into accepting a "once in a lifetime" offer, with paperwork delivered to your door requiring immediate signature
- talk of your funds being transferred in order to achieve "higher returns" (often overseas into unregulated high-risk or sham investments).

You can find much more information about pension scams and how to protect yourself at:

www.thepensionsreulator.gov.uk/individuals/dangers-of-pension-scams.aspx

or by telephone on **0300 123 1047.** If you think you may already be a victim of a pension scam then contact **Action Fraud** at **www.actionfraud.police.uk** or call **0300 123 2040.**

Final Salary section

Investment report

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, and it remains just as important as ever that strong investment performance is achieved; here we report on the investment climate which prevailed during 2014, the strategy followed by the Scheme, and the performance which resulted.

Climate

After a year of strong returns in 2013 from the equity markets, but a much more subdued climate in the bond markets, the position was somewhat reversed in 2014.

The FTSE All-Share Index in the UK, for instance, fell by 2.1%, with the second half of the year being particularly volatile. European markets, as indicated by the FTSE World Europe ex-UK Index, returned just 0.2%. The FTSE Japan Index grew only by a modest 2.7%. And the FTSE AW Emerging Markets Index increased by 7.9%. The North American market did buck the trend, though, with the Dow Jones Industrial Average producing growth of around 27%.

In the bond markets, by contrast, UK Government Bonds as measured by the FTSE Gilts All Stocks index delivered growth of 13.9%, and corporate bonds (as measured by the BofA Merrill Lynch Sterling Non-Gilts Index) produced a return of 12.4%. The property market also performed well, with the IPD UK All Property Index rising by 19.3%.

Strategy

As at the beginning of 2014 the assets of the Final Salary section were invested through five investment managers as follows:

- Around 58% 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 13% of the assets were invested under a Liability Driven Investment (LDI) mandate through **Schroders Investment Management.** The objective of this mandate is to provide some protection against fluctuations in the value of the Scheme's liabilities. Where liability values increase due to changes in interest and inflation rates, the LDI mandate will reduce this negative experience. Conversely, where liability values decrease, the benefit of this will be reduced somewhat by the LDI mandate.
- The remaining 11% of the assets were invested in a corporate bonds portfolio with **Royal London Asset Management.**

During the year, the target proportion of the assets in the LDI mandate managed by Schroders was increased to 20%. Also, the 3.5% of the assets invested by Aviva in European property was switched to a UK property portfolio managed by **Threadneedle Asset Management,** with effect from 30 June 2014. Following these strategy changes, the breakdown of the overall portfolio between asset types at the end of 2014 was as follows (31 December 2013 figures in brackets):

UK Equities	**6.3%** (6.0%)
Overseas Equities	**25.2%** (25.5%)
Hedge Funds	**5.0%** (5.0%)
Corporate Bonds	**30.0%** (35.5%)
Property	**13.5%** (13.5%)
LDI mandate	**20.0%** (14.5%)

Performance

The Trustee board monitor the performance of our investment managers closely, and assess it by reference to pre-set "benchmarks" based on market trends. The results opposite were delivered.

Overall, then, the Scheme fell slightly short of its investment performance target. However, the above figures show clearly that some of our investment managers performed better than others. The Trustee board are continuing to monitor the performance of BlueCrest, in particular, closely: any further changes resulting from this will be reported in next year's edition of "Life".

	2014	
	BENCHMARK	PERFORMANCE
Legal & General - Equities	7.5%	7.5%
Legal & General - Corporate Bonds	12.2%	12.8%
Aviva (HLV Property)	19.0%	9.1%
Aviva (European Property)	1.6%	1.8%
BlueCrest	10.0%	6.6%
Schroder	92.8%	92.8%
Royal London	12.2%	15.1%
Threadneedle (since 30 June 2014)	8.8%	9.1%
TOTAL SCHEME	23.0%	22.4%

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 seven times during the year.

During 2014, there was one change to the membership of the Trustee board in that Andrew Roberts ceased to be a Member-nominated Director with effect from 31 July 2014, on leaving the Company as a result of the closure of the Horsham site. Andrew had been a Director since July 2004, and we would like to thank him sincerely for his hard work and commitment to the Scheme over such a long period and wish him every success for the future.

As reported on page 1, Sue Webb ceased to be Chairperson with effect from 1 September 2015, on leaving the Company. The Trustee board will appoint a successor in due course.

Following these changes, the Trustee board is currently as follows:

Company-nominated	Member-nominated
Richard Jarvis	Russell Cory
Shaun Loughran	Graham Dumbleton
Philip Lowndes	
Erica Cassin (formerly Erica Thomas)	

Professional Advisers

The Trustee board have overall responsibility for running the Scheme. However, they delegate some of the more specialised tasks to external professional advisers, whose performance they monitor closely. During 2014, apart from the addition of Threadneedle Asset Management (as reported opposite) our advisers were unchanged from the previous year and were:

Actuarial Consultants	Mercer
Scheme Administrators	Equiniti Paymaster
Investment Managers	Legal & General
	Aviva Fund Management
	BlueCrest Capital Management
	Royal London Asset Management
	Schroder Investment Management
	Threadneedle Asset Management (from 30 June 2014)
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

Average over last 3 years

BENCHMARK	PERFORMANCE
n/a	14.9%
8.6%	8.4%
5.2%	8.1%
2.5%	0.7%
10.0%	4.9%
n/a	n/a
n/a	n/a
n/a	n/a
13.0%	13.2%

News**desk**

Lifetime Allowance

The Lifetime Allowance is a limit set by HM Revenue & Customs on the total amount you can save in your pension "pot" over your working life, from all sources (excluding your State pension). If your "pot" at retirement exceeds the Lifetime Allowance, the excess will be taxed at the rate of 25% when it is taken as pension (on top of the income tax already payable on that pension).

Currently, the Lifetime Allowance is £1.25 million. **In the March 2015 Budget, however, it was announced that it would be reduced to £1 million with effect from 6 April 2016,** but that from 6 April 2018 it would increase annually in line with inflation.

Only a relatively small proportion of people are affected by the Lifetime Allowance, and "transitional protection" is available in some cases. If you think that you might be affected by this change, or you would like further information, please contact the Scheme's administrators (see below).

Survivors' benefits for civil partners and same-sex spouses

The Marriage (Same Sex Couples) Act 2013 came into effect on 29 March 2014, meaning that same-sex couples have been allowed to marry in England & Wales since that date.

As a result of changes made by the Act, occupational pension schemes such as the Novartis Scheme must provide a "statutory minimum" level of survivors' benefits to same-sex spouses in the event of members' deaths. The Scheme's Trust Deed and Rules already provide for the payment of a statutory minimum level of survivors' benefits in respect of civil partners, and under the Act these benefits must also now be provided in respect of same-sex married couples.

On further consideration, the Trustee board and the Company have jointly decided to provide survivors' benefits to same-sex spouses and civil partners on the same basis as for opposite sex married couples, which is more generous than the statutory minimum required by law and means that all such members are treated equally. Please contact the Scheme's administrators if you have any questions about how this might apply to you.

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 2015) at which the State Basic Pension is paid, if you have paid the required amount of National Insurance contributions during your working life, are £6,029.40 per year (£115.95 per week) for a single person and £9,643.40 per year (£185.45 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 DC section) rather than "contracted-out" (which you were if you were a member of the Final Salary section prior to 31 December 2011).

From 6 April 2016, however, 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 **single-tier, flat-rate State pension.** The full amount of this will be least £151.25 per week, though the actual amount received will be dependent on the recipient's National Insurance contribution record. You can find more information about this at: **www.gov.uk/new-state-pension**

You can obtain an online forecast of how much State Pension you are currently likely to receive (prior to the change to the new single-tier pension) at: **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: **www.gov.uk/calculate-state-pension**

Whatever State Pension you receive, the amount of it is increased annually. 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).

2015 pension increase

For pension earned in respect of Pensionable Service built up after 5 April 1997, an increase for all pensioners of 2.3% was automatically applied from 1 April 2015 (in line with the increase in the Retail Prices Index to the previous September).

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. 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

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