Novartis UK Pension Scheme
Newsletter August 2016
Issue 19

Life

An introduction from your new Chairman, Philip Lowndes

Following in the footsteps of Sue Webb, who has now left Novartis, I am delighted to have taken over as the new Chairman of your Trustee board with effect from 1 September 2015.

In welcoming you to our annual Trustee's Report newsletter for the first time, I would again like to express our sincere thanks to Sue for her contribution during her six years as Chair. Sue steered the Scheme through a period of considerable challenge and change, and I'm sure all members will want to join me in wishing her every success in the future.

This issue of "Life" covers the year ended 31 December 2015, and it has to be said that 2015 was a very subdued year across most of the world's investment markets. The FTSE All-Share Index in the UK, for instance, fell by 2.5%, with the second half of the year being particularly volatile. Most overseas equity markets produced lacklustre returns, the bond markets were similarly in the doldrums, and only the property market performed reasonably well. Against this background the High Growth, High Risk Fund in which most current Scheme members are invested grew by just 1.7%, and as a result most members will have seen only modest growth in the value of their Retirement Accounts over the year. As we often say, though, saving for your retirement should always be viewed as a long term business - as a marathon rather than a sprint - and too much importance shouldn't be attached to performance figures in individual years.

Although all current members now earn benefits in the 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 2015 the DB section's income again exceeded its expenditure, partly due to the Company's extra contributions of more than £29 million as agreed following the 2012 actuarial valuation. At the same time, however, the value of the Scheme's DB investments fell by nearly £17 million, and this meant that overall, the value of the DB section decreased by just over 1% during the year.

Whilst this was a reasonable outcome for the year in the investment climate that prevailed, a fuller picture of the DB section's longer-term financial position will be provided by the latest three-yearly full actuarial valuation as at 31 December 2015, the results of which are currently in preparation. Whilst this will reflect the extra Company contributions referred to above, the outcome will also have been affected by the ever-increasing value of the Scheme's liabilities as gilts yields have remained at unprecedentedly low levels and life expectancy has continued to increase (which means that pensioners will be receiving their pensions for longer).

I hope you will find this edition of "Life" useful and informative. Having been a Trustee since the Scheme's inception back in 1998, I regard it as a great privilege to have now been appointed to the role of Chairman and I can promise you that - capably assisted by all the other members of the Trustee board and our experienced team of professional advisers - I will certainly carry it out to the best of my ability.

With best regards,

Philip Lowndes, Chairman of the Trustee Board

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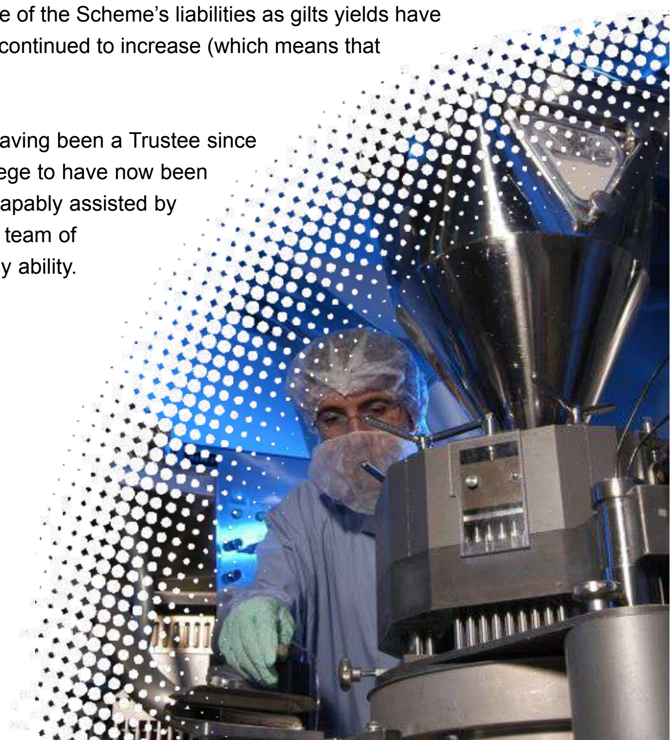


Scheme **Finances**

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

Defined Contribution section

	2014 £,000	**2015 £,000**
THE VALUE OF THE FUND AT THE START OF THE YEAR WAS	£112,288	**£136,027**
THE MONEY RECEIVED DURING THE YEAR WAS:		
Normal Company contributions (including member contributions paid through salary sacrifice arrangement)	£15,759	**£13,613**
Members' Additional Voluntary Contributions	£2,792	**£1,868**
Transfers-in of members' benefits from other schemes	£853	**£7,926***
Other income	£270	**£768**
Income from our investments *(dividends, interest etc.)*	£3	**£4**
TOTAL INCOME	£19,677	**£24,179**
THE MONEY PAID OUT DURING THE YEAR WAS:		
Annuities purchased	£320	**£193**
Tax-free lump sum retirement benefits	£52	**£49**
Lump sum benefits on members' deaths in service or in retirement	£308	**£830**
Contributions refunded in respect of members leaving with less than two years' Pensionable Service or opting out	£9	**£11**
Transfers of leaving members' benefits to other schemes	£1,200	**£3,585**
Transfer to Final Salary section	£832	**£718**
Investment Management fees	£190	**£323**
Administrative expenses *(incl. consultancy, actuarial, legal, auditing, etc.)*	£1	**£330**
TOTAL EXPENDITURE	£2,912	**£6,039**
THIS GIVES NET INCOME (INCOME LESS EXPENDITURE) OF	£16,765	**£18,140**
Plus increase in market value of investments	£6,974	**£1,974**
SO THE VALUE OF THE FUND AT THE END OF THE YEAR WAS	£136,027	**£156,141**

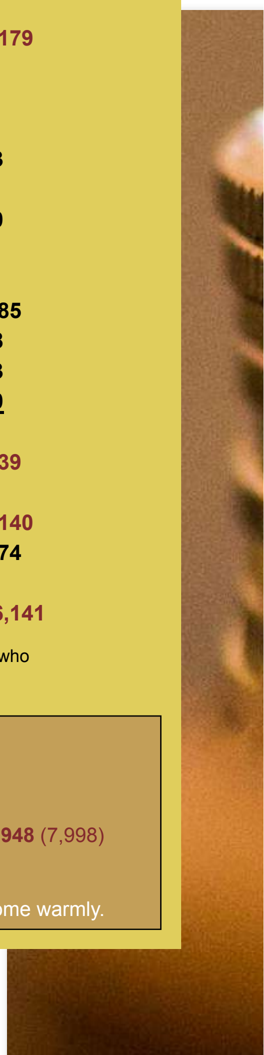
* This included a bulk transfer of the DC assets, valued at £7.3 million, relating to members of the Chiron UK Pension Scheme who transferred into the Novartis Scheme in November 2015 when that company was acquired by Novartis.

Scheme membership

Total membership of the Scheme increased to 13,219, a rise of 411 on last year (2014 figures in brackets):

Active members	**1,584** (2,138)	Members with deferred pensions	**8,948** (7,998)
Pensioners and dependants	**2,687** (2,672)		

While 1,026 active members left the Scheme, 482 new employees joined during the year, all of whom we welcome warmly.



The income and expenditure of both sections of the Scheme in the financial year to 31 December 2015, 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

	2014 £,000	**2015** **£,000**
THE VALUE OF THE FUND AT THE START OF THE YEAR WAS	£860,597	**£1,042,457**
THE MONEY RECEIVED DURING THE YEAR WAS:		
Company contributions	£29,704	**£42,326***
Transfers-in of individual members' benefits from other schemes	£1	**£44,121****
Other income	£1	**£0**
Transfer from DC section	£832	**£718**
Income from investments *(dividends, interest etc.)*	£20,356	**£25,170**
TOTAL INCOME	£50,894	**£112,335**
THE MONEY PAID OUT DURING THE YEAR WAS:		
Pension payments and annuities purchased	£19,798	**£20,195**
Tax-free lump sum retirement benefits	£4,185	**£,3,333**
Lump sum benefits on members' deaths in service or in retirement	£190	**£77**
Transfers of leaving members' benefits to other schemes	£2,001	**£80,340+**
Investment Management fees	£1,879	**£2,014**
Administrative expenses *(including administration, consultancy, actuarial, legal, auditing, etc.)*	£1,255	**£986**
TOTAL EXPENDITURE	£29,308	**£106,945**
THIS GIVES NET INCOME (INCOME LESS EXPENDITURE) OF	£21,586	**£5,390**
Plus increase/(decrease) in market value of investments	£160,274	**(£16,887)**
SO THE VALUE OF THE FUND AT THE END OF THE YEAR WAS	£1,042,457	**£1,030,960**

* This included £23.2 million in extra Company contributions as part of the "recovery plan" agreed after the 2012 actuarial valuation, which is designed to correct the identified deficit of £247 million by 2025. It also included £19.1 million in statutory contributions which the Company was obliged to make in respect of the Chiron and Eli Lilly transactions (see below).

** This was a bulk transfer of assets relating to members of the Chiron UK Pension Scheme, which was merged into the Novartis Scheme with effect from 1 October 2015 when that company was acquired by Novartis.

\+ Novartis Animal Health UK Limited, Vericore Limited and Novartis Animal Vaccines Limited were sold to Eli Lilly on 1 January 2015. Deferred and Pensioner members associated with these companies had their benefits transferred over to the Eli Lilly UK Pension Scheme on 30 June 2015 and a bulk transfer payment of £75.2m was paid to the Eli Lilly Scheme on that date.

Defined Contribution section

Investment report

Members can choose between two investment routes for the investment of their Scheme contributions, FREESTYLE and **LIFESTYLE**.

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

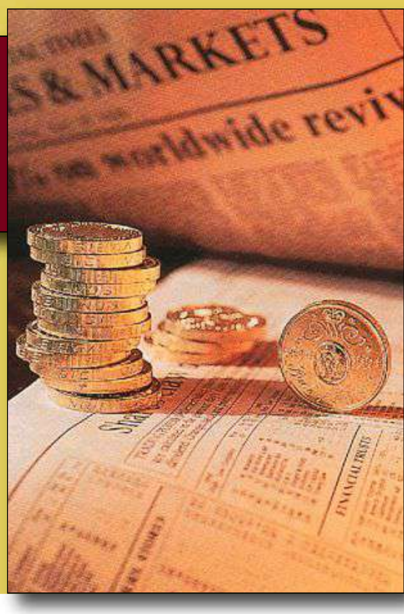
- **High Growth, High Risk -** invested in equities, currently 30% in the UK and 70% overseas.
- **Moderate Growth, Moderate Risk -** invested in a diversified growth portfolio consisting of equities, bonds, property and commodities.
- **Low Growth, Low Risk -** invested in index-linked and corporate 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.

You are reminded that the **LIFESTYLE** route, using the Low Growth, Low Risk Fund, was created specifically for members intending to purchase an "annuity" at retirement (a guaranteed pension income for life). This is because the Low Growth, Low Risk Fund is designed to move up and down by similar amounts to the price of annuities (which is driven by bond prices), thereby protecting the amount of pension income you can buy from any sharp fluctuations in annuity prices close to your retirement. However, as you probably know, the Government opened up a range of flexible new options last year as to how you can take your benefits at retirement, including Income Drawdown and Cash Withdrawal. These new options may mean that you no longer wish to purchase an annuity, and if this is the case you should consider whether the **LIFESTYLE** route continues to be right for you. All members currently using the **LIFESTYLE** route were sent a special Bulletin on this subject in December 2015.

At 31 December 2015 the four funds had a combined market value of £142.4 million, an increase of £13.3 million on the previous year. The performance of each of the funds during the year was as follows:

	BENCHMARK	PERFORMANCE
High Growth, High Risk	1.8%	1.7%*
Moderate Growth, Moderate Risk	3.9%	1.1%*
Low Growth, Low Risk	-1.1%	-1.3%*
Cash	0.4%	0.4%*



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

In addition, the DC section held assets of £7.3 million relating to the members of the Chiron UK Pension Scheme who transferred into the Scheme in November 2015.

At the end of the year, around 87.5% of the DC sections' assets were invested in the High Growth, High Risk Fund, the remainder being divided among the other three funds. This was mainly due to the fact that the majority of Scheme members have chosen to follow the **LIFESTYLE** investment route (as described above), and are therefore automatically invested in the High Growth, High Risk Fund until they are 15 years away from retirement. As a result, most members will have seen the value of their Accounts achieve only modest growth over the year.

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 most recent Personal Benefit Statement.

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.

Further changes to HMRC Allowances

In last year's edition of "Life" we reported that the **Lifetime Allowance** was to be reduced from £1.25 million to £1 million with effect from 6 April 2016. This applies to the total size of your pension "pot" earned from all sources over your working life, including the value of your Novartis Scheme benefits, benefits from any previous employers' schemes, AVCs and any personal pension arrangements, but excluding your State pension entitlement. From 6 April 2018 the Allowance will increase annually in line with inflation. If your "pot" at retirement exceeds the Allowance, the excess will incur tax charges.

The amount of annual pension savings you can make (including both your and the Company's contributions) that benefit from tax relief is limited by the **Annual Allowance.** This Allowance is currently 100% of your earnings or £40,000, whichever amount is the lower, and any pension savings you make above this give rise to a tax charge. From 6 April 2016, there is a change to the Annual Allowance for individuals with taxable income plus pension savings of over £150,000 pa., who will now have a **"Tapered Annual Allowance".** Basically this means that for every £2 of income over £150,000, the Annual Allowance will be reduced by £1 from £40,000 down to a minimum of £10,000. Scheme members who might be affected by this change were sent a leaflet about it in January 2016.

A further restriction called the **Money Purchase Annual Allowance** was introduced from 6 April 2015. This applies to members who take a one-off cash sum from their DC pension "pot" or transfer it to an income drawdown arrangement under the new pension flexibilities. If you continue to make contributions to the Scheme (or any other DC pension arrangement) after doing so, the amount on which you can receive tax relief will be subject to this Allowance which is currently £10,000 pa.

You can obtain further information on these changes at: **www.gov.uk/tax-on-your-private-pension/overview** or by contacting the Scheme's administrators.

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 2015, the strategy followed by the Scheme, and the performance which resulted.

Climate

2015 was a very subdued year across most of the world's investment markets.

The FTSE All-Share Index in the UK, for instance, fell by 2.5%, with the second half of the year being particularly volatile. The European and North American equity markets delivered only modest growth of 5.4% and 6.9% respectively. And the FTSE AW Emerging Markets Index produced a particularly poor return of -10.3%.

In the bond markets, UK Government Bonds as measured by the FTSE Gilts All Stocks index returned -0.6%, and corporate bonds (as measured by the BofA Merrill Lynch Sterling Non-Gilts Index) delivered growth of just 0.7%.

Only the property market performed reasonably well, with the IPD UK All Property Index rising by 13.8%.

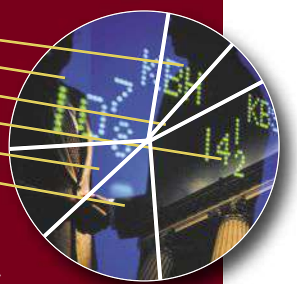
Strategy

There were no changes to our line-up of six investment managers during the year. However, the need to transfer £75.2m of assets to the Eli Lilly UK Pension Scheme, following the sale of Novartis Animal Health UK Limited, Vericore Limited and Novartis Animal Vaccines Limited to Eli Lilly in June, meant that some reorganisation of the portfolio was required. As such the Scheme's investment in equities was reduced by 5% to 26.5% of total Scheme assets, and the allocation of assets to the LDI mandate managed by Schroders was increased by 5% to 25% of total Scheme assets. Following these adjustments, the Final Salary section's assets were invested as follows at the end of 2015:

- Around 46.5% 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 property, comprising another 10% of the assets.
- Approximately 5% of the assets were managed by **BlueCrest Capital Management,** investing largely in "hedge funds".
- A further 25% of the assets were invested under a Liability Driven Investment mandate through **Schroders Investment Management.**
- 10% of the assets were invested in a corporate bonds portfolio with **Royal London Asset Management.**
- The remaining 3.5% of the assets were invested in a UK property portfolio managed by **Columbia Threadneedle Investments.**

The breakdown of the overall portfolio between asset types at the end of the year was as follows (31 December 2014 figures in brackets):

UK Equities	**5.3%** (6.3%)
Overseas Equities	**21.2%** (25.2%)
Hedge Funds	**5.0%** (5.0%)
Corporate Bonds	**30.0%** (30.0%)
Property	**13.5%** (13.5%)
LDI mandate	**25.0%** (20.0%)



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 following results were delivered, and they indicate that the Scheme marginally exceeded its investment performance target:

	2015		Average over last 3 years	
	BENCHMARK	PERFORMANCE	BENCHMARK	PERFORMANCE
Legal & General - Equities	2.1%	2.0%	10.0%	10.0%
Legal & General - Corporate Bonds	2.0%	0.6%	4.4%	4.5%
Aviva (HLV Property)	0.7%	8.3%	4.2%	8.4%
Aviva (European Property)*	1.2%	-5.8%	1.8%	-1.0%
BlueCrest	10.0%	2.9%	10.0%	3.8%
Schroder	-6.1%	-6.1%	17.7%	17.7%
Royal London	0.5%	0.1%	4.4%	4.7%
Columbia Threadneedle	12.5%	13.6%	n/a	n/a
TOTAL SCHEME	**0.6%**	**0.7%**	**9.4%**	**9.4%**

* The Scheme is currently in the process of disposing of this property portfolio.

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 the year.

As reported last year, Sue Webb ceased to be Chair with effect from 1 September 2015, on leaving the Company. The Trustee board subsequently appointed Philip Lowndes to succeed Sue with effect from 1 September 2015. Although he is now retired, Philip has been a Company-nominated Trustee since the Scheme's inception in 1998 and therefore brings vast experience to the role of Chairman.

Following this change, the full Trustee board is now as follows:

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

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 2015 our advisers were unchanged from the previous year and were:

Actuarial Consultants	Mercer
Scheme Administrators	Equiniti Pension Solutions
Investment Managers	Legal & General Investment Management Aviva Fund Management BlueCrest Capital Management Royal London Asset Management Schroder Investment Management Columbia Threadneedle Investments
Investment Advisers	Mercer
Investment Custodians	HSBC Global Investor Services
Auditors	Deloitte
Solicitors	DLA Piper UK
AVC Providers	Equitable Life Phoenix Life (formerly AMP) Standard Life Schroder
Bankers	Lloyds

Newsdesk

News about your State Pension

If you've already reached State Pension Age...

If you had already reached State Pension Age before 6 April 2016 then, in addition to your Novartis pension, you will normally be receiving the **State Basic Pension** as well in your retirement. The full rates (effective 6 April 2016) at which the State Basic Pension is paid, if you made the required amount of National Insurance contributions during your working life, are £6,203.60 per year (£119.30 per week) for a single person and £9,921.60 per year (£190.80 per week) for a married couple.

You may also be receiving the **State Second Pension (S2P),** which is an earnings-related pension on top of the State Basic Pension - it was previously called the State Earnings-Related Pension (SERPS). This will depend on how many years during your working life you were "contracted-in" to S2P/SERPS (which you were if you were a member of the Novartis Scheme's DC section). If you were a member of the Scheme's Final Salary (DB) section you were "contracted-out" of S2P/SERPS, and you will not be receiving a S2P/SERPS pension for that period.

If you've not yet reached State Pension Age (or you've reached it since 6 April 2016)...

From 6 April 2016, both the State Basic Pension and S2P have been abolished. Everyone reaching State Pension Age on or after that date will instead receive a **new universal, single-tier State pension.** The full amount of this will be £155.65 per week in 2016/17; the actual amount you receive, though, will depend on your National Insurance contribution record, and if you were contracted-out of S2P/SERPS as a member of the Novartis Scheme DB section (therefore paying lower National Insurance contributions during that period), you will probably receive less than that full amount. You can obtain an online forecast of how much State Pension you are likely to receive at: **www.gov.uk/check-state-pension.** You can find more information about the new State pension generally at: **www.gov.uk/new-state-pension.**

If you're not sure when you will reach State Pension Age which, following recent changes, depends on your gender and your date of birth, you can find out at: **www.gov.uk/state-pension-age**

2016 pension increase

For pension earned in respect of Pensionable Service built up after 5 April 1997, **an increase for all pensioners of 0.8%** was automatically applied from 1 April 2016 (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, Equiniti Pension Solutions. Their contact details are as follows:

BREXIT - how is the Scheme affected?

You may be wondering how the Novartis Scheme and your benefits from it are likely to be affected, if at all, by the UK's vote to leave the European Union in the Referendum on 23 June.

The answer at this stage is that it's very early to tell; we can, however, give you some initial information on how the Scheme's investments have performed since the Referendum result.

The Trustee board are responsible for the Scheme's investments, after taking independent professional advice and delegating day-to-day decisions to our investment managers. We are pleased to report that, while our focus is on the longer term, the Scheme's investments held up well following the Referendum vote on 23 June. In fact, the assets backing the Scheme's Defined Benefit (DB) section had risen in value by the end of June. The "growth" component of the DB portfolio is mostly invested in equities, which recovered well from initial losses over the period (helped by holding a portion of non-Sterling assets which also rose in value), while the lower risk component, invested in Government bonds and other low risk assets, rose significantly in value. We cannot be complacent, however, as the value of assets we expect to need in order to meet future benefits also rose, because the markets are now expecting lower future interest rates.

The performance of the Defined Contribution (DC) section's assets depends very much on how your individual "pot" is invested. Again, however, the short term impact of Brexit on asset values tended to be positive. Because of the impact of Brexit on expected interest rates, annuity rates (the cost of buying a pension) also went up. However, many members are invested in the Scheme's LIFESTYLE route. This is designed to provide increasing protection against the impact of fluctuating annuity rates, by investing more and more of your "pot" in bond-type assets as you approach retirement. It remains important, therefore, that individual members decide, from the range of funds available, the mix that best suits their needs going forwards.

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