

# Life

## An introduction from your Chairman, Philip Lowndes



Once again I am pleased to welcome you to this year's edition of our annual Trustee's Report newsletter, covering the year ended 31 December 2017.

From an investment point of view, 2017 again saw positive returns from most of the world's major equity markets. The FTSE All-Share Index in the UK, for instance, rose by just over 9%, and overseas markets delivered similar gains. The property market also performed well, although returns from the bond markets were more modest. Against this background, the High Growth, High Risk Fund in which most current Scheme members are invested grew by 16.5% over the year, and as a result most members will have seen another year of healthy growth in the value of their Retirement Accounts.

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 2017 the DB section's income again comfortably exceeded its expenditure, mainly due to investments income and gains of over £110 million. This meant that the overall value of the DB section increased from just under £1.3 billion to approaching £1.4 billion during the year, a rise of approximately 6.7%.

Whilst this was a good outcome for the year, a fuller picture of the DB section's longer-term financial position was provided by the latest annual actuarial update as at 31 December 2017. As reported in the Summary Funding Statement you will have received in March, this indicated that the Scheme's deficit had reduced to approximately £144 million, compared to £203 million at the time of the last full valuation in 2015, and that the funding level had increased from 84% to 91% over the same period. This improvement was mainly due to stronger than expected investment performance and the extra contributions paid in by the Company in line with the "recovery plan" agreed after the 2015 valuation, which was designed to correct the deficit by the end of November 2025. During 2017, these payments amounted to a total of just over £25 million, demonstrating the Company's continued strong commitment to fully supporting the Scheme.

As your Trustee board we will of course continue to monitor closely all developments which affect the future health of the Scheme, and to keep you informed of any issues that may affect you. As ever, I hope you will find this annual report useful and informative.

With best regards,

A handwritten signature in blue ink, appearing to read 'Philip Lowndes', written over a light blue horizontal line.

**Philip Lowndes**, Chairman of the Trustee Board





# 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

	2016 £,000	2017 £,000
<b>THE VALUE OF THE FUND AT THE START OF THE YEAR WAS</b>	£156,141	£188,884
<b>THE MONEY RECEIVED DURING THE YEAR WAS:</b>		
Normal Company contributions (including member contributions paid through salary sacrifice arrangement)	£10,707	£11,281
Members' Additional Voluntary Contributions	£1,815	£1,543
Transfers-in of members' benefits from other schemes	£728	£700
Income from our investments ( <i>dividends, interest etc.</i> )	£3	£0
<b>TOTAL INCOME</b>	£13,253	£13,524
<b>THE MONEY PAID OUT DURING THE YEAR WAS:</b>		
Annuities purchased	£331	£127
Tax-free lump sum retirement benefits	£83	£71
Lump sum benefits on members' deaths in service or in retirement	£12	£80
Payments to and on account of leaving members	£16	£46
Transfers of leaving members' benefits to other schemes	£3,655	£5,221
Transfer to Final Salary section	£996	£1,188
Investment Management fees	£299	£356
Administrative expenses ( <i>incl. consultancy, actuarial, legal, auditing, etc.</i> )	£849	£0
<b>TOTAL EXPENDITURE</b>	£6,241	£7,089
<b>THIS GIVES NET INCOME (INCOME LESS EXPENDITURE) OF</b>	£7,012	£6,435
<b>Plus</b> increase in market value of investments	£25,731	£27,606
<b>SO THE VALUE OF THE FUND AT THE END OF THE YEAR WAS</b>	£188,844	£222,925

### Scheme membership

Total membership of the Scheme decreased slightly to 13,083, a fall of 46 on last year (2016 figures in brackets):

Active members	1,545 (1,548)	Members with deferred pensions	8,671 (8,803)
Pensioners and dependants	2,867 (2,778)		

While 229 active members left the Scheme, 226 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 2017, 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 at [richard.farrar@novartis.com](mailto:richard.farrar@novartis.com).

## Final Salary section

	2016 £,000	2017 £,000
<b>THE VALUE OF THE FUND AT THE START OF THE YEAR WAS</b>	£1,030,960	£1,297,011
<b>THE MONEY RECEIVED DURING THE YEAR WAS:</b>		
Company contributions	£67,927	£25,214*
Transfers-in of individual members' benefits from other schemes	£1	£149
Transfer from DC section	£996	£1,188
Income from investments ( <i>dividends, interest etc.</i> )	<u>£27,940</u>	<u>£29,510</u>
<b>TOTAL INCOME</b>	£96,864	£56,061
<b>THE MONEY PAID OUT DURING THE YEAR WAS:</b>		
Pension payments and annuities purchased	£20,799	£21,413
Tax-free lump sum retirement benefits	£3,128	£3,216
Lump sum benefits on members' deaths in service or in retirement	£193	£249
Transfers of leaving members' benefits to other schemes	£4,358	£21,951
Investment Management fees	£2,219	£2,624
Administrative expenses ( <i>including administration, consultancy, actuarial, legal, auditing, etc.</i> )	<u>£902</u>	<u>£861</u>
<b>TOTAL EXPENDITURE</b>	£31,599	£50,314
<b>THIS GIVES NET INCOME (INCOME LESS EXPENDITURE) OF</b>	£65,265	£5,747
<b>Plus increase/(decrease) in market value of investments</b>	£200,786	£81,115
<b>SO THE VALUE OF THE FUND AT THE END OF THE YEAR WAS</b>	£1,297,011	£1,383,873

\* These were extra Company contributions paid into the Scheme as part of the "recovery plan" agreed after the 2015 actuarial valuation.



# 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 has opened up a range of flexible new options in recent years as to how you can take your benefits at retirement, including Income Drawdown and Cash Withdrawal. These newer 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.

At 31 December 2017 the four funds had a combined market value of £221.7 million, an increase of £48.0 million on the previous year. The performance of each of the funds during the year was as follows:

	BENCHMARK	PERFORMANCE
High Growth, High Risk	16.6%	16.5%*
Moderate Growth, Moderate Risk	8.2%	9.3%*
Low Growth, Low Risk	3.7%	3.6%*
Cash	0.2%	0.2%*

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

At the end of the year, around 75% 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 healthy growth in the value of their Retirement Accounts 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 current literature including the 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](http://www.unbiased.co.uk).

## Update on HMRC Allowances

The **Lifetime Allowance** is a limit imposed by HM Revenue & Customs on the total size of your pension "pot" earned from all sources over your working life. This includes the value of your Novartis Scheme benefits, benefits from any previous employers' schemes, AVCs and any personal pension arrangements, but excludes your State pension entitlement. The Allowance currently increases annually in line with inflation and since 6 April 2018 is £1.03m. 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.

Higher earning individuals with annual taxable income plus pension savings of over £150,000 pa. have a "**Tapered Annual Allowance**". Essentially this means that for every £2 of income over £150,000, the Annual Allowance is reduced by £1 from £40,000 down to a minimum of £10,000. Scheme members who might be affected by this Allowance were sent a Bulletin about it in January 2016, and a follow-up to this was issued in January 2017.

A further restriction called the **Money Purchase Annual Allowance** applies to members who take a one-off cash sum from their DC pension "pot" or transfer it to an income drawdown arrangement. 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 £4,000 pa.

You can obtain further information about these Allowances at: [www.gov.uk/tax-on-your-private-pension](http://www.gov.uk/tax-on-your-private-pension) or by contacting the Scheme's administrators. You may also wish to seek regulated financial advice.





# Final Salary section

## Investment report

The Scheme's assets are invested through professional investment managers, and - even though members are no longer paying contributions to or accruing benefits in the Final Salary section of the Scheme - it remains just as important as ever that strong investment performance is achieved. Here we report on the investment climate which prevailed during 2017, the strategy followed by the Scheme, and the performance which resulted.

### Climate

2017 was a second successive year of positive returns from most of the world's major equity investment markets.

The FTSE All-Share Index in the UK, for instance, rose by just over 9%. The North American equity market as measured by the Dow Jones Industrial Average delivered growth of around 25%. A typical European index, the Dax in Germany, increased by approximately 12.5%. And in the Far East, the Japanese Nikkei index produced a return of just over 19%.

The property market also performed well, with a typical property index rising by around 10%. Returns from the bond markets were more modest, though: the S&P UK Investment Grade Corporate Bond Index had a return of 4.5% over the year, while the S&P UK Gilt Bond Index gained just 1.9%.

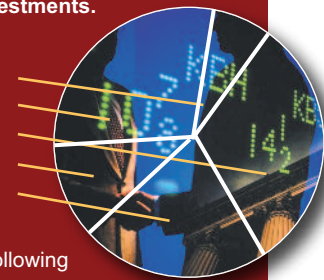
### Strategy

There were no changes to our line-up of five investment managers during 2017. The Scheme's assets were invested as follows at the end the year:

- Around 44.5% 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 8.4% of the assets.
- A further 26.9% of the assets were invested under a Liability Driven Investment (LDI) mandate through **Schroders Investment Management**.
- Approximately 17.4% of the assets were invested in a corporate bonds portfolio with **Royal London Asset Management**.
- The remaining 2.8% 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 unchanged from the previous year, and was as follows (31 December 2016 figures in brackets):

UK Equities	5.3% (5.3%)
Overseas Equities	21.2% (21.2%)
Corporate Bonds	35.0% (30.0%)
Property	13.5% (13.5%)
LDI mandate	25.0% (25.0%)



### Performance

The Trustee board monitor the performance of our investment managers closely, and assess it by reference to pre-set "benchmarks" based on the market trends described above. The following results were delivered, and they indicate that the Scheme fell marginally short of its overall investment performance target:

	2017		Average over last 3 years	
	BENCHMARK	PERFORMANCE	BENCHMARK	PERFORMANCE
Legal & General - Equities	17.2%	17.0%	11.7%	11.5%
Legal & General - Corporate Bonds	4.9%	5.1%	5.6%	5.3%
Aviva (HLV Property)	9.4%	7.7%	7.5%	7.7%
Schroder	5.5%	5.5%	15.7%	15.7%
Royal London	4.3%	4.1%	5.1%	5.4%
Columbia Threadneedle	10.2%	9.7%	8.4%	8.8%
<b>TOTAL SCHEME</b>	<b>8.8%</b>	<b>8.5%</b>	<b>10.5%</b>	<b>10.1%</b>





# Newsdesk

## Your State Pension

### If you reached State Pension Age before 6 April 2016...

If you 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 2018) at which the State Basic Pension will be paid, if you made the required amount of National Insurance contributions during your working life, are £6,549.40 per year (£125.95 per week) for a single person and £10,496.20 per year (£201.85 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)...

Both the State Basic Pension and S2P were abolished with effect from 6 April 2016. Everyone reaching State Pension Age after that date will instead receive a **new universal, single-tier State pension**. The full amount of this is £164.35 per week (£8,546.20 per year) in 2018/19; 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 NI 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](http://www.gov.uk/check-state-pension). You can find more information about the new State pension generally at: [www.gov.uk/new-state-pension](http://www.gov.uk/new-state-pension)

Benefits from the State Pension Scheme are payable from your State Pension Age, which will depend on when you were born; generally it will be between 65 and 68. You can find out your exact State Pension Age under current law at: [www.gov.uk/state-pension-age](http://www.gov.uk/state-pension-age)

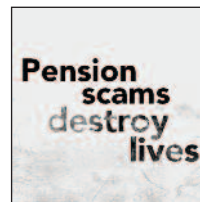
### Your annual pension increase...

Whatever State Pension you receive, the amount of it is currently increased annually (under the government's "triple lock") 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).

## Protecting your personal information

You've probably seen a lot of coverage lately of some new legislation called the **General Data Protection Regulation (GDPR)** which came into effect on 25 May 2018, replacing the previous Data Protection Act. It's likely that you'll also have received letters or emails from many of the companies you have dealings with, describing their policies under the GDPR for protecting your data and your privacy. Indeed, you'll have received a "Privacy Notice" from the Novartis UK Pension Scheme in the last few weeks, setting out our policies with regard to the personal information about you which we hold, store, share and process for the purpose of running the Scheme. One thing you can be sure of is that no-one from the Scheme or its administrators, Equiniti, will ever cold call you or email you asking for information like your bank details; if you do receive such a call or email out of the blue purporting to be from the Scheme, you can be pretty certain it's a scam and you should just put the phone down or delete the email.

retired member already receiving your pension from the Final Salary (DB) section of the Scheme, this hasn't stopped fraudsters targetting thousands of people with DB benefits, aiming to persuade them to transfer into a DC arrangement in order to "take advantage" of the new flexibilities - particularly, perhaps, the "opportunity" to release a large cash sum or to achieve "guaranteed" high investment returns. What the scammers won't tell you, of course, is that if you do this, you risk losing all your money and the security you've saved for throughout your working life, **and** you could face a huge tax bill as well.



To try and combat this rapidly-growing problem, the Pensions Regulator has launched a new website: [www.pension-scams.com](http://www.pension-scams.com). The website features several very useful tips to protect yourself from scammers. These include being wary of cold calls, unsolicited texts or emails and professional-looking websites and brochures, steering clear of unregulated (often overseas) investment "deals", checking that an "adviser" is properly registered with the Financial Conduct Authority (FCA), and never being pressured or rushed into making important decisions without doing your homework and checking everything for yourself. **We strongly urge all our Novartis pensioner members to have a look at this website, now.**

Protecting your personal data from fraudsters and scammers is something which, unfortunately, we all have to be acutely aware of in this day and age. Regrettably, scams of this kind seem to have become particularly prevalent around pensions. Although the new pension freedoms which came into effect in April 2015 apply primarily to members of DC pension schemes (like current members of the Novartis Scheme), and don't directly affect you if you're a

If you have a query about your membership, you should in the first instance contact the Scheme's administrators: **Novartis UK Pension Administrators**, Equiniti Paymaster, Sutherland House, Russell Way, Crawley, West Sussex, RH10 1UH. Helpline: **01293 603047** Email: [novartis@equiniti.com](mailto:novartis@equiniti.com)



# 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 four times during the year.

The Trustee board during 2017 was unchanged from the previous year and was:

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

All Defined Contribution pension schemes now have to comply with some stringent quality and governance standards, and a requirement in this area introduced in 2015 was that the Chairman of the Trustee board must produce and make available to members an annual Statement regarding DC Governance. This should covers aspects like Trustee knowledge and understanding, requirements for processing financial transactions, the Scheme's default investment arrangement, and charges and transaction costs. Our Statement for the year ended 31 December 2017 is included in the Scheme's formal Annual Report & Accounts, a copy of which you can obtain if you wish by contacting the Pensions Manager at [richard.farrar@novartis.com](mailto:richard.farrar@novartis.com).

## 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. Our advisers during 2017 were unchanged from the previous year and were:

<b>Actuarial Consultants</b>	Mercer
<b>Scheme Administrators</b>	Equiniti Paymaster
<b>Investment Managers</b>	Legal & General Investment Management
	Aviva Fund Management
	Royal London Asset Management
	Schroder Investment Management
	Columbia Threadneedle Investments
<b>Investment Advisers</b>	Mercer
<b>Investment Custodians</b>	HSBC Global Investor Services
<b>Auditors</b>	Deloitte
<b>Solicitors</b>	DLA Piper UK
<b>AVC Providers</b>	Equitable Life
	Phoenix Life
	Standard Life
<b>Bankers</b>	Lloyds

