Life

NOVARTIS UK PENSION SCHEME

NEWSLETTER SEPTEMBER 2017

ISSUE 20

An introduction from your Chairman, Philip Lowndes

I am again pleased to introduce this year's edition of our annual Trustee's Report newsletter, covering the year ended 31 December 2016.

From an investment point of view, after a very subdued 2015, 2016 saw much stronger returns from most of the world's major investment markets. The FTSE All-Share Index in the UK, for instance, rose by 12.5%, with the second half of the year seeing particularly strong performance. Most overseas equity markets delivered similar gains, the bond markets also performed quite well, and only the property market was less buoyant. Against this background the High Growth, High Risk Fund in which most current Scheme members are invested grew by 15.6%, and as a result most members will have seen healthy growth in the value of their Retirement Accounts over the year.

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 2016 the DB section's income again comfortably exceeded its expenditure, mainly due to investments income and gains of over £230 million. Added to the fact that the Company made extra contributions of nearly £68 million (partly as agreed following the 2012 actuarial valuation, and partly statutory contributions following the cessation of Novartis Consumer Health as a participating employer), this meant that the overall value of the DB section increased from just over £1 billion to almost £1.3 billion during the year, a rise of just under 26%.

Whilst this was an excellent outcome for the year, a fuller picture of the DB section's longer-term financial position was provided by the latest three-yearly full actuarial valuation, which was undertaken as at 31 December 2015. The valuation calculates whether the value of the Scheme's assets (the amount of money in the Scheme and its estimated future income) is sufficient to cover its liabilities (the target level of assets needed to pay the benefits earned by all the Scheme's members, when they come to retire). As reported in the Summary Funding Statement you will have received recently, the main finding of the valuation was that on an "ongoing funding level" basis there was a deficit of approximately £203 million, and that the funding level was 84%. This compared with a deficit of £247 million at the time of the 2012 valuation, with a funding level of 77%.

So the Scheme's funding position had improved somewhat in the three years since the previous valuation, and the Company subsequently agreed to make the following extra payments in order to correct the deficit by the end of November 2025:

- from 1 January 2016 to 31 December 2016 - 12 monthly instalments of £1,951,000
- from 1 January 2017 to 31 March 2017 - 3 monthly instalments of £1,990,020
- from 1 April 2017 to 31 December 2017 - 9 monthly instalments of £2,114,438
- from 1 January 2018 to 31 October 2025 - monthly instalments of £2,083,333, but increased on an annual basis in line with the one-year percentage change in the Retail Prices Index at the previous September, subject to the annual increase not exceeding 5%. The first increase is effective on 1 January 2018. If the change in the Retail Prices Index is negative, the contributions will continue at the same level as in the previous year.
- for the month to 30 November 2025, one fixed payment of £530,000.

These additional contributions again demonstrate 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 Scheme and your benefits and, as ever, I hope you will find this annual report useful and informative.

Philip Lowndes, Chairman of the Trustee Board

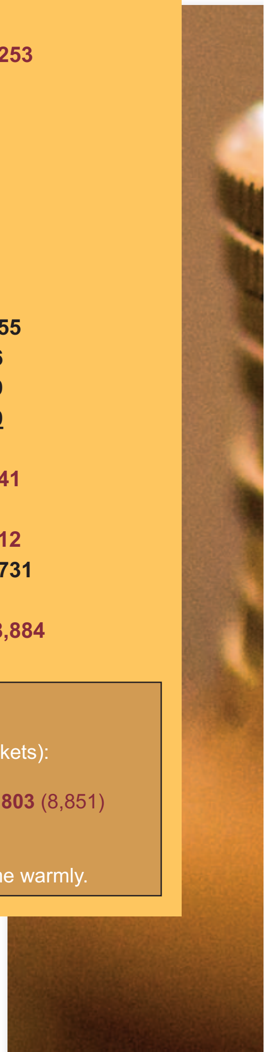
NOVARTIS

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

	2015 £,000	**2016 £,000**
THE VALUE OF THE FUND AT THE START OF THE YEAR WAS	£136,027	**£156,141**
THE MONEY RECEIVED DURING THE YEAR WAS:		
Normal Company contributions (including member contributions paid through salary sacrifice arrangement)	£13,613	**£10,707**
Members' Additional Voluntary Contributions	£1,868	**£1,815**
Transfers-in of members' benefits from other schemes	£7,926	**£728**
Other income	£768	**£0**
Income from our investments *(dividends, interest etc.)*	£4	**£3**
TOTAL INCOME	£24,179	**£13,253**
THE MONEY PAID OUT DURING THE YEAR WAS:		
Annuities purchased	£193	**£331**
Tax-free lump sum retirement benefits	£49	**£83**
Lump sum benefits on members' deaths in service or in retirement	£830	**£12**
Contributions refunded in respect of members leaving with less than two years' Pensionable Service or opting out	£11	**£16**
Transfers of leaving members' benefits to other schemes	£3,585	**£3,655**
Transfer to Final Salary section	£718	**£996**
Investment Management fees	£323	**£299**
Administrative expenses *(incl. consultancy, actuarial, legal, auditing, etc.)*	£330	**£849**
TOTAL EXPENDITURE	£6,039	**£6,241**
THIS GIVES NET INCOME (INCOME LESS EXPENDITURE) OF	£18,140	**£7,012**
Plus increase in market value of investments	£1,974	**£25,731**
SO THE VALUE OF THE FUND AT THE END OF THE YEAR WAS	£156,141	**£188,884**



Scheme membership

Total membership of the Scheme increased very slightly to 13,129, a rise of 6 on last year (2015 figures in brackets):

Active members	**1,548** (1,584)	Members with deferred pensions	**8,803** (8,851)
Pensioners and dependants	**2,778** (2,688)		

While 277 active members left the Scheme, 241 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 2016, 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

	2015 £,000	**2016 £,000**
THE VALUE OF THE FUND AT THE START OF THE YEAR WAS	£1,042,457	**£1,030,960**
THE MONEY RECEIVED DURING THE YEAR WAS:		
Company contributions	£42,326	**£67,927***
Transfers-in of individual members' benefits from other schemes	£44,121	**£1**
Transfer from DC section	£718	**£996**
Income from investments *(dividends, interest etc.)*	£25,170	**£27,940**
TOTAL INCOME	£112,335	**£96,864**
THE MONEY PAID OUT DURING THE YEAR WAS:		
Pension payments and annuities purchased	£20,195	**£20,799**
Tax-free lump sum retirement benefits	£3,333	**£3,128**
Lump sum benefits on members' deaths in service or in retirement	£77	**£193**
Transfers of leaving members' benefits to other schemes	£80,340	**£4,358**
Investment Management fees	£2,014	**£2,219**
Administrative expenses *(including administration, consultancy, actuarial, legal, auditing, etc.)*	£986	**£902**
TOTAL EXPENDITURE	£106,945	**£31,599**
THIS GIVES NET INCOME (INCOME LESS EXPENDITURE) OF	£5,390	**£65,265**
Plus increase/(decrease) in market value of investments	(£16,887)	**£200,786**
SO THE VALUE OF THE FUND AT THE END OF THE YEAR WAS	£1,030,960	**£1,297,011**

* This included £23.4 million in extra Company contributions as part of the "recovery plan" agreed after the 2012 actuarial valuation. It also included £44.5 million in statutory contributions which the Company was obliged to make following the cessation of Novartis Consumer Health UK Ltd as a participating employer in the Scheme on 30 April 2016, following the sale of that business to GlaxoSmithKline.

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. All members using the **LIFESTYLE** route were sent a special Bulletin on this subject in December 2015.

At 31 December 2016 the four funds had a combined market value of £173.7 million, an increase of £31.3 million on the previous year. The performance of each of the funds during the year was as follows:

	BENCHMARK	PERFORMANCE
High Growth, High Risk	15.7%	15.6%*
Moderate Growth, Moderate Risk	7.3%	20.2%*
Low Growth, Low Risk	16.7%	16.7%*
Cash	0.3%	0.4%*

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

In addition, the DC section held assets of £8.6 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 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


Routemap

All members of the DC section will recently have received details of the new upgraded member online site, where you can check where your Account is currently invested and how it has performed:

https://novartis.compendiatouch.co.uk

You can also consult 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.
- 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

As we reported in last year's edition of "Life", the **Lifetime Allowance** was to be reduced 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 was a change to the Annual Allowance for higher earning individuals with taxable income plus pension savings of over £150,000 pa., who now 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 have been affected by this change were sent a Bulletin about it in January 2016.

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 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. but is planned to be reduced to £4,000 pa. with effect from 6 April 2017.

You can obtain further information on these Allowances at: **www.gov.uk/tax-on-your-private-pension/overview** 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 2016, the strategy followed by the Scheme, and the performance which resulted.

Climate

After a very subdued 2015, the 2016 Scheme year saw much stronger returns from most of the world's investment markets.

The FTSE All-Share Index in the UK, for instance, rose by 12.5%, with the second half of the year seeing particularly strong performance. The North American equity market as measured by the Dow Jones Industrial Average delivered growth of around 20.9%. A typical European index, the Dax in Germany, increased by more than 16.5%. And in the Far East, the Japanese Nikkei index produced a reasonable return of just over 8%.

The bond markets also performed quite well: the S&P UK Investment Grade Corporate Bond Index had a return of 10.7% over the year, while the S&P UK Gilt Bond Index gained 8.7%. The property market was less buoyant, though, with the IPD UK All Property Index rising only by 2.8%.

Strategy

In late 2015 one of our six investment managers, BlueCrest Capital Management, announced that they would be closing down their funds during 2016. BlueCrest had managed approximately 5% of the Scheme's assets, investing largely in "hedge funds", and the Trustee board subsequently decided to reallocate these assets to Royal London's corporate bonds portfolio (see below) as an interim measure, pending further consideration of the Scheme's investment strategy in the light of the 2015 actuarial valuation. Following this change, the Final Salary section's assets were invested as follows at the end of 2016:

- Around 43.8% of the assets were managed by **Legal & General,** partly in "index-tracking" equity funds and partly in "actively managed" corporate bonds, with a small percentage held in cash.
- **Aviva Fund Management** were responsible for a portfolio of High Lease Value property, comprising another 8.4% of the assets.
- A further 31.9% of the assets were invested under a Liability Driven Investment (LDI) mandate through **Schroders Investment Management.**
- Approximately 13% of the assets were invested in a corporate bonds portfolio with **Royal London Asset Management.**
- The remaining 2.7% 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 2015 figures in brackets):

UK Equities	**5.3%** (5.3%)
Overseas Equities	**21.2%** (21.2%)
Hedge Funds	**0.0%** (5.0%)
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 market trends. The following results were delivered, and they indicate that the Scheme fell marginally short of its investment performance target:

	2016		Average over last 3 years	
	BENCHMARK	PERFORMANCE	BENCHMARK	PERFORMANCE
Legal & General - Equities	16.4%	16.3%	8.5%	8.4%
Legal & General - Corporate Bonds	11.7%	10.6%	8.0%	7.8%
Aviva (HLV Property)	5.3%	7.3%	7.5%	8.1%
Aviva (European Property)*	2.5%	6.7%	1.8%	0.7%
Schroder	56.2%	56.2%	41.4%	41.4%
Royal London	10.6%	12.4%	7.7%	9.0%
Columbia Threadneedle	2.8%	3.1%	n/a	n/a
TOTAL SCHEME	23.0%	22.2%	15.0%	14.5%

* 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.

The Trustee board during 2016 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 a 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 2016 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.

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. Apart from the withdrawal of BlueCrest Capital Management (see opposite), our advisers during 2016 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
	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
	Standard Life
	Schroders
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 £6,359.60 per year (£122.30 per week) for a single person and £10,171.20 per year (£195.60 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 £159.55 per week in 2017/18; 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**

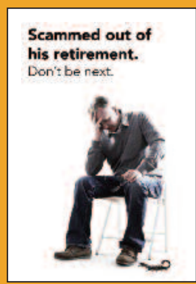
Benefits from the State Pension Scheme are payable from your State Pension Age, which will depend on when you were born; generally it will be between 65 and 68. You can find out your exact State Pension Age under current law at: **www.gov.uk/state-pension-age**

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).

DON'T LET A PENSION SCAM RUIN YOUR RETIREMENT!

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 retired member already receiving your pension from the Final Salary (DB) section of the Scheme. However, 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 you risk losing all your money and the security you 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**

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 investment "deals", checking that an "adviser" is properly registered, and never being pressured or rushed into making important decisions without doing your homework and checking everything yourself.

We strongly urge all our Novartis pensioner members to have a look at this website, now.

There is also a wealth of information about safeguarding yourself from scams and fraud of all kinds at: **www.ageuk.org.uk/money-matters/consumer-advice/scams-advice**

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

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