

Life

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 2018.

From an investment point of view, after two successive years of positive returns 2018 was a much less buoyant year. The FTSE All-Share Index in the UK, for instance, fell by just under 13%, and most overseas equity markets also performed poorly. While the property markets delivered slightly better returns, the bond markets were also very subdued. Against this background, most current Scheme members will have seen a reduction in the value of their retirement pots over the year. However, too much importance should not be attached to a single year's performance figures, as saving for your retirement should be viewed as a long term journey - as a marathon rather than a sprint.

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 2018 the DB section's income again exceeded its expenditure. At the same time, however, the value of the Scheme's DB investments fell by more than £34 million, and this meant that overall, the value of the DB section decreased by around 2.4% during the year.

As far as the Scheme's longer-term financial position is concerned, the Company is currently paying in extra contributions at the rate of just under £26 million per year, in line with the "recovery plan" designed to correct the funding deficit of £203 million identified by the Scheme's 2015 actuarial valuation. However, another three-yearly full valuation as at 31 December 2018 is currently being carried out; a new "recovery plan" will then be put in place, and the Trustee board and the Company will continue to work together with a firm commitment to bringing the Scheme back into a balanced financial position. We will report back to members on the valuation and the revised "recovery plan" later in the year.

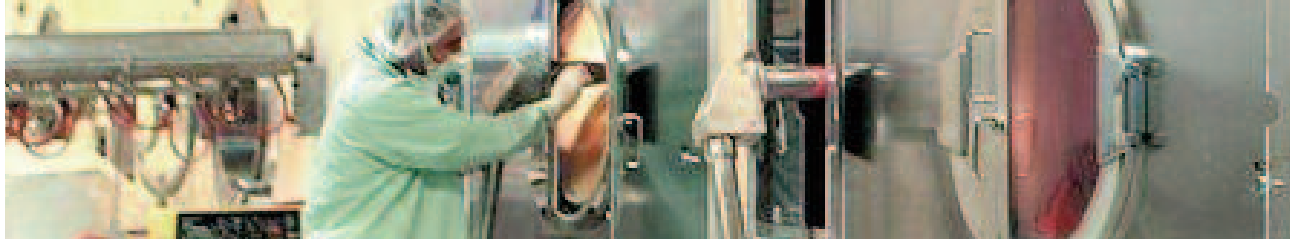
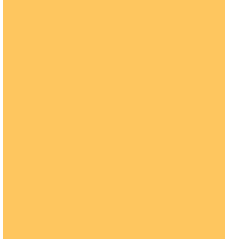
As your Trustee board we will of course continue to monitor closely all developments which impact upon the Scheme, and to keep you informed of any issues that may affect you. As ever, I hope you will find this annual report useful and informative.

With best regards,

A handwritten signature in blue ink, appearing to read 'Philip Lowndes', written in a cursive style.

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

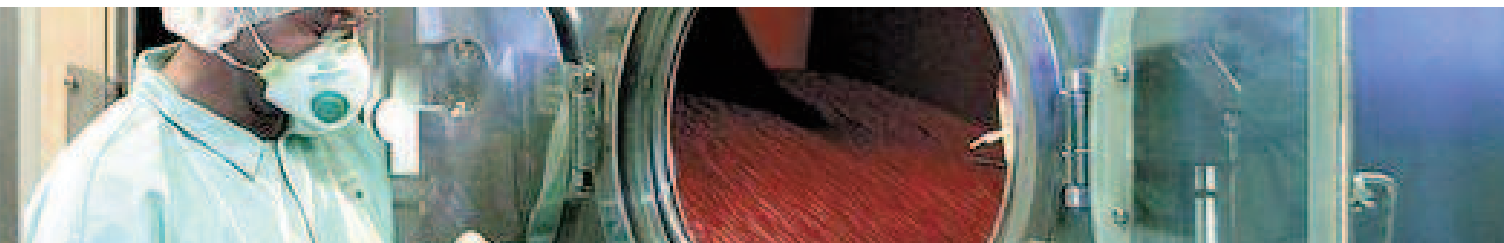
	2017 £,000	2018 £,000
THE VALUE OF THE FUND AT THE START OF THE YEAR WAS	£188,884	£222,925
THE MONEY RECEIVED DURING THE YEAR WAS:		
Normal Company contributions (including member contributions paid through salary sacrifice arrangement)	£11,281	£11,972
Members' Additional Voluntary Contributions	£1,543	£2,317
Transfers-in of members' benefits from other schemes	<u>£700</u>	<u>£700</u>
TOTAL INCOME	£13,524	£14,989
THE MONEY PAID OUT DURING THE YEAR WAS:		
Annuities purchased	£127	£86
Tax-free lump sum retirement benefits	£71	£7
Lump sum benefits on members' deaths in service or in retirement	£80	£759
Payments to and on account of leaving members	£46	£5
Transfers of leaving members' benefits to other schemes	£5,221	£6,987
Transfer to Final Salary section	£1,188	£1,046
Investment Management fees	<u>£356</u>	<u>£380</u>
TOTAL EXPENDITURE	£7,089	£9,270
THIS GIVES NET INCOME (INCOME LESS EXPENDITURE) OF	£6,435	£5,719
Plus increase/(decrease) in market value of investments	£27,606	(£14,560)
SO THE VALUE OF THE FUND AT THE END OF THE YEAR WAS	£222,925	£214,084

Scheme membership

Total membership of the Scheme decreased slightly to 12,946, a fall of 137 on last year (2017 figures in brackets):

Active members	1,542 (1,545)	Members with deferred pensions	8,570 (8,671)
Pensioners and dependants	2,834 (2,867)		

While 255 active members left the Scheme, 253 new employees joined it 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 2018, 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.

Final Salary section

	2017 £,000	2018 £,000
THE VALUE OF THE FUND AT THE START OF THE YEAR WAS	£1,297,011	£1,383,873
THE MONEY RECEIVED DURING THE YEAR WAS:		
Company contributions	£25,214	£25,975*
Transfers-in of individual members' benefits from other schemes	£149	£0
Transfer from DC section	£1,188	£1,046
Income from investments (<i>dividends, interest etc.</i>)	<u>£29,510</u>	<u>£29,549</u>
TOTAL INCOME	£56,061	£56,570
THE MONEY PAID OUT DURING THE YEAR WAS:		
Pension payments and annuities purchased	£21,413	£24,874
Tax-free lump sum retirement benefits	£3,216	£3,984
Lump sum benefits on members' deaths in service or in retirement	£249	£242
Transfers of leaving members' benefits to other schemes	£21,951	£21,240
Investment Management fees	£2,624	£2,518
Administrative expenses (<i>including administration, consultancy, actuarial, legal, auditing, etc.</i>)	<u>£861</u>	<u>£1,893</u>
TOTAL EXPENDITURE	£50,314	£54,751
THIS GIVES NET INCOME (INCOME LESS EXPENDITURE) OF	£5,747	£1,819
Plus increase/(decrease) in market value of investments	£81,115	(£34,495)
SO THE VALUE OF THE FUND AT THE END OF THE YEAR WAS	£1,383,873	£1,351,197

* 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 2018 the four funds had a combined market value of £212 million, a decrease of £9.7 million on the previous year. The performance of each of the funds during the year was as follows:

	BENCHMARK	PERFORMANCE
High Growth, High Risk	-7.6%	-7.7%*
Moderate Growth, Moderate Risk	-4.9%	-3.2%*
Low Growth, Low Risk	-0.9%	-0.9%*
Cash	0.5%	0.5%*

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

At the end of the year, around 72% 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 a reduction in the value of their Retirement Accounts over the year.





Monitor your Account online

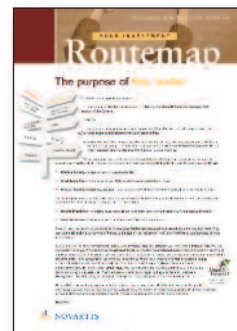
You can check where your Account is currently invested and how it has performed via our highly secure member website at:

<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.

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 2019 is £1.055m**. 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 £154,800 pa. (2019/20) have a **"Tapered Annual Allowance"**. Essentially this means that for every £2 of income over £154,800, the Annual Allowance is reduced by £1 from £40,000 down to a minimum of £10,000.

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 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 2018, the strategy followed by the Scheme, and the performance which resulted.

Climate

After two successive years of positive returns, 2018 was a much less buoyant year for most of the world's major equity investment markets.

The FTSE All-Share Index in the UK, for instance, fell by just under 13%. The North American equity market as measured by the Dow Jones Industrial Average produced a negative return of around 7%. A typical European index, the Dax in Germany, decreased by more than 18%. And in the Far East, the Japanese Nikkei index contracted by just over 12%.

The property markets performed a little better, but the bond markets were also very subdued: the S&P UK Investment Grade Corporate Bond Index had a return of -2.1% over the year, while the S&P UK Gilt Bond Index gained just 0.5%.

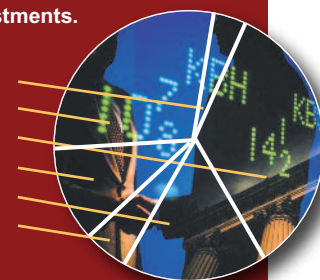
Strategy

There was just one change to our line-up of investment managers during the year, with the appointment of LaSalle Investment Management in November 2018 to manage a European property fund (though no funds had yet been allocated to them at the end of the year). The Scheme's assets were invested as follows at the end of 2018:

- Around 42% of the assets were managed by **Legal & General**, in "index-tracking" equity funds, in "actively managed" corporate bonds and in cash.
- **Aviva Fund Management** were responsible for a portfolio of High Lease Value property, comprising another 9.1% of the assets.
- A further 28.3% of the assets were invested under a Liability Driven Investment (LDI) mandate through **Schroders Investment Management**.
- Approximately 17.5% of the assets were invested in a corporate bonds portfolio with **Royal London Asset Management**.
- The remaining 3% 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 2017 figures in brackets):

UK Equities	1.7% (5.3%)
Overseas Equities	20.8% (21.2%)
Corporate Bonds	35.0% (35.0%)
Property	13.5% (13.5%)
LDI mandate	25.0% (25.0%)
Cash	4.0% (0.0%)



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 produced, and they indicate that in the sluggish investment climate described above, the Scheme fell just marginally short of its overall investment performance target:

	2018		Average over last 3 years	
	BENCHMARK	PERFORMANCE	BENCHMARK	PERFORMANCE
Legal & General - Equities	-6.9%	-7.1%	8.2%	8.1%
Aviva (HLV Property)	7.5%	7.3%	7.5%	7.4%
Schroder	3.1%	3.0%	19.3%	19.2%
Royal London	-1.5%	-1.4%	4.4%	4.9%
Columbia Threadneedle	6.5%	6.5%	6.4%	6.4%
TOTAL SCHEME	-0.1%	-0.5%	10.1%	9.6%



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 2018 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 2018 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.

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 2018 were unchanged from the previous year, apart from the appointment of an additional investment manager as reported on page 6, and were:

Actuarial Consultants	Mercer
Scheme Administrators	Equiniti Paymaster
Investment Managers	Legal & General Investment Management
	Aviva Fund Management
	Royal London Asset Management
	Schroder Investment Management
	Columbia Threadneedle Investments
	LaSalle Investment Management (from 6 Nov 2018)
Investment Advisers	Mercer
Investment Custodians	HSBC Global Investor Services
Auditors	Deloitte
Solicitors	DLA Piper UK
AVC Providers	Equitable Life, Phoenix Life
	Standard Life
Bankers	Lloyds





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 2019) at which the State Basic Pension is paid, if you made the required amount of National Insurance contributions during your working life, are £6,718.40 per year (£129.20 per week) for a single person and £10,769.20 per year (£207.10 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 **universal, single-tier State pension**. The full amount of this is £168.60 per week (£8,767.20 per year) in 2019/20; 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 seem to have acted as a magnet for a whole host of clever, manipulative fraudsters, eager to get their hands on company pension scheme members' newly-flexible pension pots.

Their aim is to persuade you to take advantage, by transferring your "pot" out of the Novartis Scheme and into theirs, of 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 introduced this website:

www.pension-scams.com

The website features several very useful tips to protect yourself from scammers. These include being wary of cold calls (although in theory these are now illegal), 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 active members of the Novartis Scheme to have a look at this website.



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