

Life

An introduction from your Chairman, Philip Lowndes



Welcome to this year's edition of our annual Trustee's newsletter for members of the Novartis UK Pension Scheme.

As you will know, the Defined Contribution section of the Scheme was closed with effect from 1 June 2020, with its members and their benefits transferring to a new Master Trust arrangement with Legal & General. As a result, the Scheme's membership now comprises those members who are entitled on retirement to deferred benefits from the Scheme's Final Salary section which they earned before benefit accrual in that Section ceased at the end of 2011, and those members already receiving pensions from the Final Salary section. Even though the Scheme no longer has any current contributing members, it remains just as important as ever that the Scheme continues to be properly funded and efficiently managed, and that we continue to communicate with you about the Scheme as fully as we have done previously.

This report covers the year ended 31 December 2020, and during the year the Scheme's income again comfortably exceeded its expenditure, largely due to investment income and gains of over £225 million. This meant that the overall value of the Scheme increased from just over £1.4 billion to more than £1.6 billion, a rise of approximately 14.5%. Despite the fact that equity markets around the world were sent crashing during late February and March as the worldwide Covid-19 pandemic took hold, most equity markets had recovered quite well by the end of the year, and the bond markets again produced strong results.

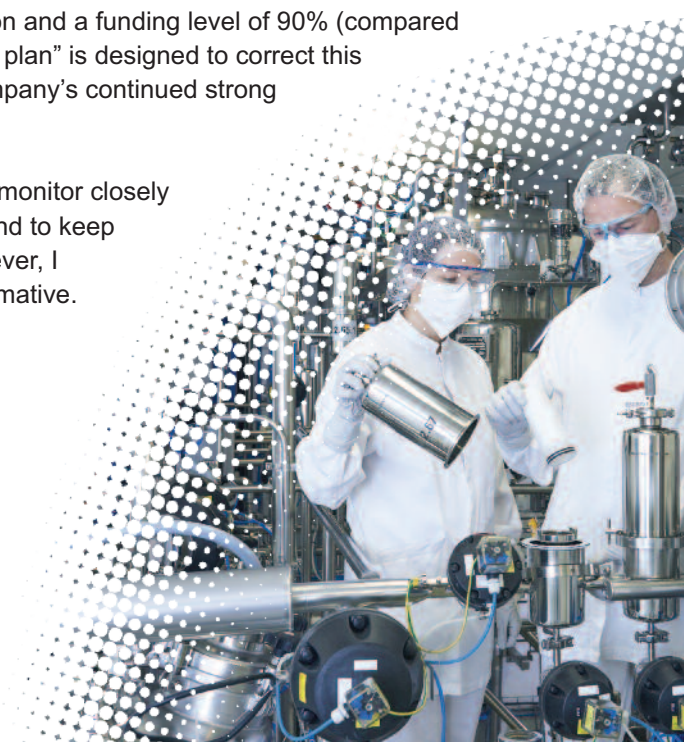
As far as the Scheme's longer-term financial position is concerned, the Company is continuing to pay in extra contributions at the rate of around £27 million per year, in line with the "recovery plan" agreed after the 2015 actuarial valuation and continued after the most recent valuation as at 31 December 2018. This valuation indicated a deficit of £149 million and a funding level of 90% (compared to £203 million and 84% in 2015), and the "recovery plan" is designed to correct this shortfall by November 2025, 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 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**

The Scheme's income and expenditure in the financial year to 31 December 2020, and other detailed financial information, are given in the formal, audited Trustee's Report and Accounts. 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 the Company's contributions have been fully paid in as required. You can ask to see a copy of the Report and Accounts if you wish by contacting the Secretary to the Trustee Board at rfarrarwork@outlook.com. The key points are as follows:

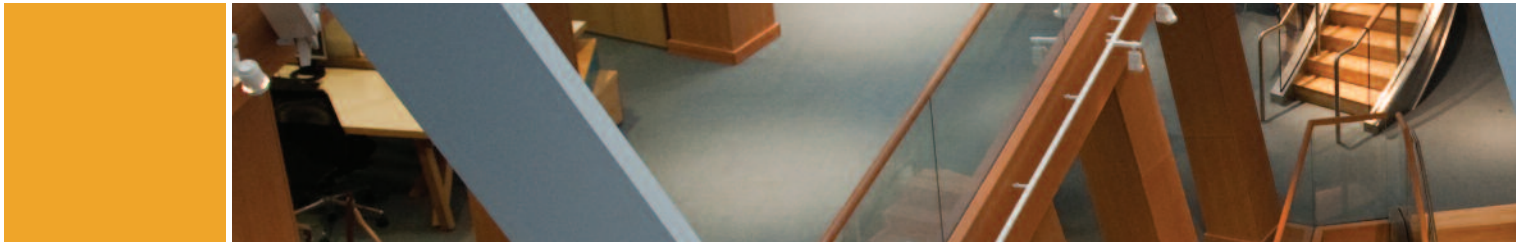
	2019 £,000	2020 £,000
THE VALUE OF THE FUND AT THE START OF THE YEAR WAS	£1,351,197	£1,416,456
THE MONEY RECEIVED DURING THE YEAR WAS:		
Company contributions	£26,904	£36,879*
Transfers-in of individual members' benefits from other schemes, and other income	£421	£496
Transfer from DC section	£491	£1,238
Income from investments (<i>dividends, interest etc.</i>)	£15,634	£15,038
TOTAL INCOME	£43,450	£53,648
THE MONEY PAID OUT DURING THE YEAR WAS:		
Pension payments and annuities purchased	£23,594	£25,076
Tax-free lump sum retirement benefits	£4,122	£4,759
Lump sum benefits on members' deaths in service or in retirement	£585	£434
Transfers of leaving members' benefits to other schemes	£19,140	£24,708
Investment Management fees	£1,590	£2,716
Administrative expenses (<i>including administration, consultancy, actuarial, legal, auditing, etc.</i>)	£1,863	£1,324
TOTAL EXPENDITURE	£50,894	£59,017
THIS GIVES NET INCOME/(EXPENDITURE) OF	(£7,444)	(£5,369)
Plus increase/(decrease) in market value of investments	£72,703	£210,525
SO THE VALUE OF THE FUND AT THE END OF THE YEAR WAS	£1,416,456	£1,621,612

* These consisted of a) the extra Company contributions paid into the Scheme as part of the "recovery plan" agreed after the 2015 actuarial valuation and subsequently continued after the 2018 valuation, together with b) an agreed payment of £9.4 million covering the benefits of the members who left the Scheme when Alcon Eyecare UK Limited ceased to be a participating employer in the Scheme when it was spun off from Novartis as a standalone company in 2019.

Scheme membership

Total membership of the Scheme fell slightly to 7,355 (2019 figures in brackets below). As the Scheme has been closed to benefit accrual since 2011, there are no current contributing members; former contributing members are eligible for deferred pensions from the Scheme on their retirement.

Members eligible for deferred pensions on retirement	4,327 (4,545)
Retired members already receiving pensions (including dependants)	3,028 (2,920)



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 Scheme - it remains just as important as ever that investment performance is achieved that meets the needs of the Scheme's overall funding strategy. Here we report on the investment climate which prevailed during 2020, the strategy followed by the Scheme, and the performance which resulted.

Climate

The main feature of the year was of course the fact that equity markets around the world were sent crashing during late February and March 2020 as the worldwide Covid-19 pandemic took hold. The FTSE 100 index in the UK, for example, fell by more than 30% in the space of about three weeks.

Over the year as a whole, the FTSE All-Share Index in the UK fell by 13.5%. Other markets had recovered well by the end of the year, though. The North American equity market as measured by the Dow Jones Industrial Average, for instance, produced a positive return of just under 7%. A typical European index, the Dax in Germany, increased by around 3%. And in the Far East, the Japanese Nikkei index grew by some 16%.

The property markets were fairly flat during the year, with the MSCI UK All Property Index returning -1.0%. The bond markets produced much more positive results, however: the FTSE Gilts All Stocks Index rose by 8.3%, the corresponding Over 15 Year gilts index delivered growth of 13.9% and the FTSE All Stocks Index-Linked Gilts Index gained 11.0%.

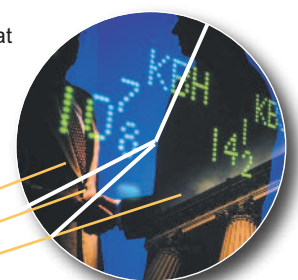
Strategy

As we reported last year the Trustee Board took the decision in 2019 to begin materially reducing the Scheme's risk profile, and this process continued during 2020. As a result, the Scheme's remaining equity holdings were sold during the year, the proceeds being added on a tactical basis to the Liability Driven Investment (LDI) mandate managed by Schroders, pending further discussions on the Scheme's future investment strategy. Following these changes, the Scheme's assets were invested as follows at the end of 2020:

- 22.7% of the assets were managed by **Legal & General**, in "actively managed" corporate bonds and in cash instruments.
- **Aviva Fund Management** were responsible for a portfolio of High Lease Value property, comprising another 8.2% of the assets.
- A further 51.3% of the assets were invested under a Liability Driven Investment (LDI) mandate through **Schroders Investment Management**.
- The remaining 17.9% of the assets were invested in a corporate bonds portfolio with **Royal LondonAsset Management**.

The target breakdown of the overall portfolio between asset types at the end of the year was as follows (31 December 2019 figures in brackets):

UK Equities	0.0% (0.4%)
Overseas Equities	0.0% (4.6%)
Corporate Bonds	35.0% (35.0%)
Property	8.0% (8.0%)
LDI mandate	57.0% (52.0%)





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:

	2020		Average over last 3 years	
	BENCHMARK	PERFORMANCE	BENCHMARK	PERFORMANCE
Legal & General - Corporate bonds	4.3%	5.2%	n/a	n/a
Aviva (HLV Property)	4.3%	5.4%	5.9%	6.4%
Schroder	27.4%	27.3%	11.5%	11.4%
Royal London	7.8%	8.3%	5.1%	5.4%
TOTAL SCHEME	16.2%	15.9%	7.3%	7.3%

Statement of Investment Principles & Implementation Statement

The Scheme is legally obliged to publish a Statement of Investment Principles and an Implementation Statement annually. If you wish to see these documents, you can find them at

<https://novartis.compendiatouch.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 increases annually in line with inflation and **since 6 April 2021 is £1,073,100**. If your “pot” at retirement exceeds the Allowance, the excess will incur tax charges.

The amount of annual pension savings you can make (including the amount the Company contributes to the Scheme on your behalf) 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 taxable income plus pension savings of over £240,000 pa. (2021/22) have a “**Tapered Annual Allowance**”. Essentially this means that for every £2 your income goes over £240,000, the Annual Allowance limiting the amount of pension savings you can make that year which benefits from tax relief is reduced by £1, from £40,000 down to a minimum of £4,000.

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.



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 is Secretary to the Trustee board. The Trustee board met formally four times during the year.

During the year Richard Brazier (General Manager, Novartis Ophthalmics AG) and Julie Campbell (People & Organisation Head, Oncology UK) joined the Trustee Board as Company-nominated Directors, with effect from 1 August 2020. Following these changes, the full Trustee board is now as follows:

Company-nominated	Member-nominated
Philip Lowndes (Chairman)	Russell Cory
Richard Jarvis	Graham Dumbleton
Richard Brazier	
Julie Campbell	

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 at the end of 2020 were unchanged from the previous year, apart from the fact that one of our AVC providers, Equitable Life, was purchased by Utmost Life and Pensions:

Actuarial Consultants	Mercer
Scheme Administrators	Equiniti Paymaster
Investment Managers	Legal & General Investment Management
	Aviva Fund Management
	Royal London Asset Management
	Schroder Investment Management
Investment Advisers	Mercer
Investment Custodians	HSBC Global Investor Services
Auditors	Deloitte
Solicitors	DLA Piper UK
AVC Providers	Utmost Life & Pensions (formerly Equitable Life, Phoenix Life, Standard Life)
Bankers	Lloyds

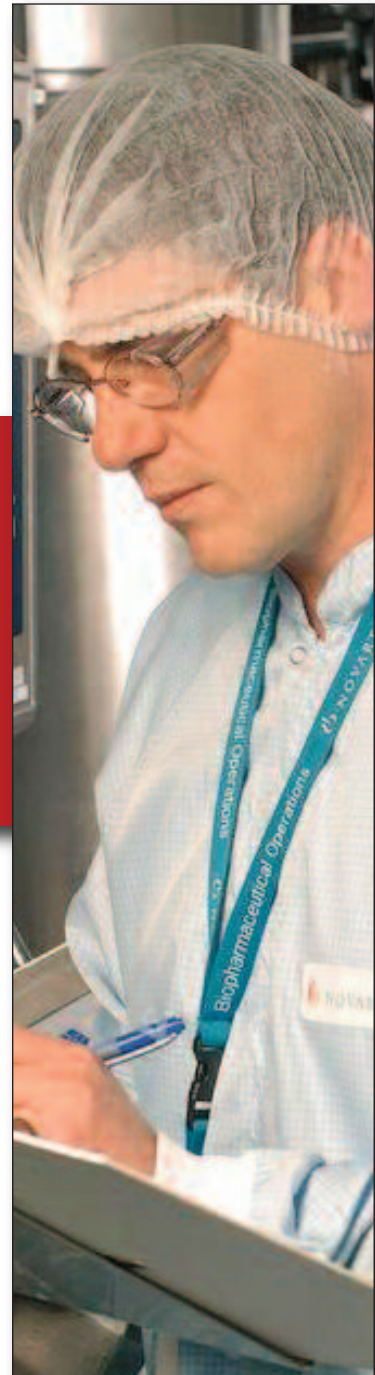
Monitor your Scheme benefits online

You can now keep track of your Novartis Scheme benefits through our new, highly secure online portal at:

<https://novartis.compendiatouch.co.uk>

All members should have received individual login details for the new portal recently. If not, or if you have any other difficulties accessing it, please contact the Scheme's administrators using the address details on page 6 of this newsletter.

The portal also enables you to 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 Expression of Wish, Election to Opt Out, AVCs, etc.





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 2021) at which the State Basic Pension will be paid, if you made the required amount of National Insurance contributions during your working life, are £7,157.80 per year (£137.65 per week) for a single person and £11,445.20 per year (£220.10 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, if any, you were "contracted-in" to S2P/SERPS. During your membership of the Scheme's Final Salary section you were "contracted-out" of S2P/SERPS, and you will not be receiving any 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 £179.60 per week (£9,339.20 per year) in 2021/22; the actual amount you receive, though, will depend on your National Insurance contribution record, and because you were contracted-out of S2P/SERPS as a member of the Novartis Scheme Final Salary section (therefore paying lower National Insurance contributions), 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).

Former Sandoz and Wander members - early retirement

As a reminder, if you are a former member of the Sandoz Retirement Benefit Plan or the Wander Limited Pension Fund and have not as yet drawn your benefits, subject to the Rules of the Scheme you are able, with the consent of the Trustee board, to take your benefits from age 60 without an early retirement reduction applying. Therefore if you are approaching or are above age 60 and wish to take your benefits, please contact the Scheme's administrators.



AVCs/Variable Pay Accounts

Members who transferred into the new defined contribution Novartis Pension Plan during 2020, but who still have AVCs or Variable Pay Accounts within the Novartis UK Pension Scheme, are reminded that they can if they wish transfer these to their new Plan. If you would like to consider this, please contact the Scheme's administrators by emailing: novartis@equiniti.com.

For more information

If you have a query about your Scheme 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

