

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, covering the year ended 31 December 2022.

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.

From an investment environment point of view, 2022 started on a positive note as the effects of the Covid pandemic receded. This narrative was abruptly changed, however, by Russia's invasion of Ukraine in February. We have seen surging commodity prices and inflation, greatly reducing growth expectations around the world. The consequence was extreme volatility in virtually all of the world's investment markets, and most of the markets produced significantly negative returns in 2022 as a whole. This included UK bond investments where prices fell dramatically in the Autumn and interest rates rose significantly.

The overall financial position of the Scheme has been stable despite this volatility, because as it has matured over recent years we have changed the investment strategy to mirror more closely the payments that will be paid in the future (referred to as Liability Driven Investment (LDI)), using bond investments. Although these investments fell significantly in value over 2022, the cost of funding the future liabilities of the Scheme also reduced by broadly the same amount as the assets reduced, and overall the funding position improved.

You may remember that LDI was in the news at the end of 2022 as the dramatic increases in interest rates caused some pension schemes to struggle to raise enough cash from liquid investments to support their bond position. We were not one of those funds and, diligently watching the situation, we were able to react in a controlled way.

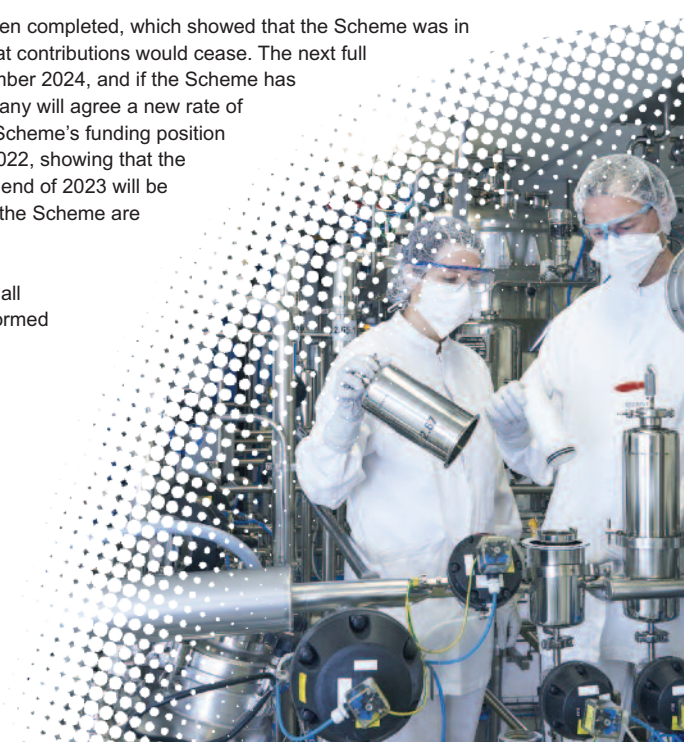
Demonstrating its continued strong commitment to fully supporting the Scheme, the Company continued to pay in extra contributions at the rate of around £29 million per year up to October 2023, in line with the "recovery plan" agreed after the 2015 actuarial valuation. This plan was designed to correct the historic shortfall in the Scheme's assets compared to its liabilities by November 2025, and was continued after the 2018 valuation.

The three-yearly full valuation as at 31 December 2021 has now been completed, which showed that the Scheme was in surplus. As a result, the Trustee board and the Company agreed that contributions would cease. The next full actuarial valuation of the Scheme will be carried out as at 31 December 2024, and if the Scheme has fallen back into deficit at that time, the Trustee board and the Company will agree a new rate of contributions. In the meantime the Trustee board is monitoring the Scheme's funding position and recently received an approximate update as at 31 December 2022, showing that the Scheme remained in surplus. A further update of the position at the end of 2023 will be considered during 2024. Further details in relation to the funding of the Scheme are provided in the enclosed Summary Funding Statement.

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,

Philip Lowndes, Chairman of the Trustee Board





Scheme **Finances**

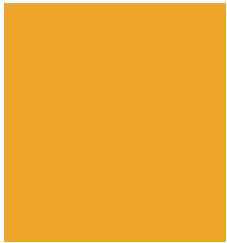
The Scheme's income and expenditure in the financial year to 31 December 2022, and other detailed financial information, are given in the formal, audited Trustee's Report and Accounts. In that document the Scheme's auditors have given an unqualified opinion that the financial statements give a true and 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 Scheme's administrators via the contact details on page 6 of this newsletter. The key points are as follows:

	2021 £,000	2022 £,000
THE VALUE OF THE FUND AT THE START OF THE YEAR WAS	£1,621,612	£1,645,382
THE MONEY RECEIVED DURING THE YEAR WAS:		
Company contributions	£27,803	£29,139
Transfers-in of individual members' benefits from other schemes, and other income	£1	£0
Transfer from DC section	£786	£886
Income from investments (<i>dividends, interest etc.</i>)	<u>£14,499</u>	<u>£13,045</u>
TOTAL INCOME	£34,089	£43,070
THE MONEY PAID OUT DURING THE YEAR WAS:		
Pension payments and annuities purchased	£25,754	£26,992
Tax-free lump sum retirement benefits	£3,575	£3,919
Lump sum benefits on members' deaths in service or in retirement	£238	£27
Transfers of leaving members' benefits to other schemes	£13,047	£15,962
Investment Management fees	£2,232	£1,643
Administrative expenses (<i>including administration, consultancy, actuarial, legal, auditing, etc.</i>)	<u>£1,505</u>	<u>£2,054</u>
TOTAL EXPENDITURE	£46,351	£50,597
THIS GIVES NET INCOME/(EXPENDITURE) OF	(£3,262)	(£7,527)
Plus increase/(decrease) in market value of investments	£27,032	(£614,002)
SO THE VALUE OF THE FUND AT THE END OF THE YEAR WAS	£1,645,382	£1,023,853

Scheme membership

Total membership of the Scheme fell slightly to 7,166 (2021 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	3,962 (4,147)
Retired members already receiving pensions (including dependants)	3,204 (3,112)



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 2022, the strategy followed by the Scheme, and the performance which resulted.

Investment climate

With 2022 having started on a positive note as the effects of the Covid pandemic receded, this narrative was abruptly and completely changed by Russia's invasion of Ukraine in February. This led to surging commodity prices and interest rates, inflation reaching levels not seen for several decades, and greatly reduced growth expectations around the world.

This gave rise to extreme volatility in virtually all of the world's investment markets, and a sell-off in almost all asset classes. Consequently, most of the markets produced significantly negative returns in 2022 as a whole. This was exacerbated in the UK by the government's "mini-budget" in quarter 3 promising unfunded tax cuts, which precipitated a crisis in government bond markets which fell by some 23.8% over the year. UK corporate bonds and inflation-linked bonds also performed poorly, with returns of -17.8% and -33.6% respectively.

In the equity markets, the FTSE All-Share Index in the UK rose by 0.3% over the year to 31 December 2022. In North American the Dow Jones Industrial Average, for instance, produced a return of -6.9% (in USD terms). A typical European index, the Dax in Germany, decreased by 12.3% (in EUR terms). And in the Far East, the Japanese Nikkei index contracted by 7.3% (in JPY terms). The considerable outperformance of UK equities is attributed to the index's large exposure to oil, gas and basic materials.

The property markets were also adversely affected by the same economic backdrop, with the MSCI/AREF UK Quarterly Fund Index, for example, returning -10.0% over the year.

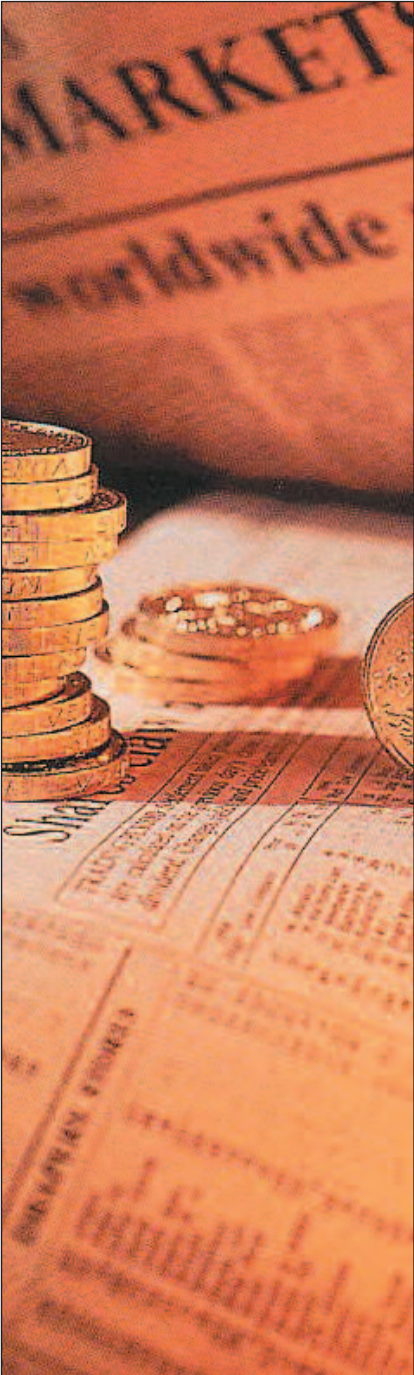
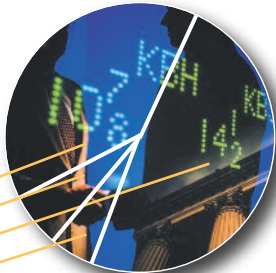
Strategy

The Trustee Board's strategy of materially reducing the Scheme's risk profile continued during 2022, with the objective of ensuring that all members' benefits are payable when they fall due. The Scheme's assets were invested as follows at the end of 2022:

- 22.0% of the assets were managed by **Legal & General**, in "actively managed" corporate bonds and in cash instruments.
- **Aviva Investors** were responsible for a portfolio of High Lease Value property, comprising another 12.1% of the assets.
- A further 37.7% of the assets were invested under a Liability Driven Investment (LDI) mandate through **Schroders Investment Management**.
- 21.4% of the assets were invested in a corporate bonds portfolio with **Royal London Asset Management**.
- The remaining 6.8% of the assets were held in a Responsible Values Multi-Asset Credit portfolio managed by **Wellington Management**.

The target breakdown of the overall portfolio between asset types was unchanged from the end of the previous year as follows (31 December 2021 figures in brackets):

Corporate Bonds	35.0% (35.0%)
Property	8.0% (8.0%)
LDI mandate & cash	52.0% (57.0%)
Multi-Asset Credit	5.0% (0.0%)





The actual allocations listed on the previous page deviated materially from this target breakdown due to the extreme volatility of the bond markets during the third and fourth quarters of 2022, and the resulting fall in the value of the Schroders LDI portfolio (see Performance figures below). The Trustee board are continuing to monitor this position, but believe that the LDI portfolio continues to meet its objectives within our overall investment strategy designed to meet the Scheme's liabilities.

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. As a result of the economic climate described opposite, the following results were delivered and these resulted in the significant fall in the value of the Scheme's investments shown in the Accounts on page 2 of this newsletter:

	2022		Average over last 3 years	
	BENCHMARK	PERFORMANCE	BENCHMARK	PERFORMANCE
Legal & General - Corporate bonds	-15.3%	-16.4%	-3.5%	-4.8%
Aviva (HLV Property)	-11.5%	-8.2%	1.2%	3.0%
Wellington	-11.1%	-13.3%	n/a	n/a
Schroder	-59.2%	-59.2%	-18.9%	-18.9%
Royal London	-17.7%	-19.5%	-4.9%	-5.2%
TOTAL SCHEME	-36.3%	-36.9%	-8.9%	-9.2%

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/schemeinformation>

Update on HMRC Allowances

The **Lifetime Allowance** was a limit imposed by HM Revenue & Customs on the total size of your pension "pot" earned from all sources over your working life, on which you could receive favourable tax treatment. This included the value of your Novartis Scheme benefits, benefits from any previous employers' schemes, AVCs and any personal pension arrangements, but excluded your State pension entitlement. The Allowance in 2022/23 was £1.073 million, and if your "pot" at retirement exceeded the Allowance, the excess would have incurred tax charges. **However, it was announced in the March 2023 Budget that the Lifetime Allowance would be abolished with effect from 6 April 2023.** The only limit which will now apply is that the maximum amount that can be withdrawn as a tax-free cash sum will still be 25% of the value of your benefits in the Scheme, up to a maximum of the 2022/23 Lifetime Allowance, ie. £268,275.

You can obtain further information about HMRC 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 five times during the year.

Julie Campbell resigned from the Trustee board with effect from 21 June 2022, and will be replaced as a Company-nominated Director in due course. As a result, the Trustee Board is currently as follows:

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

Professional Advisers

The Trustee board has overall responsibility for running the Scheme. However, it delegates some of the more specialised tasks to external professional advisers, whose performance is monitored closely. Our advisers during 2022 were unchanged from the previous year:

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



Monitor your Scheme benefits online

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

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

If you have any difficulties accessing the portal, 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. You can also update your Expression of Wish form which helps the Trustee board in the event of your death; access calculations of your benefits and your pension payslip; and download all the forms you may need during your membership such as 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 2023) at which the State Basic Pension will be paid, if you made the required amount of National Insurance contributions during your working life, are £8,122.40 per year (£156.20 per week) for a single person and £12,989.60 per year (£249.80 per week) for a married couple.

You may also be receiving the **State Second Pension (S2P)**, which is an earnings-related pension on top of the State Basic Pension - it was previously called the State Earnings-Related Pension (SERPS). This will depend on how many years during your working life, 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 £203.85 per week (£10,600.20 per year) in 2023/24; 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's Final Salary section (therefore paying lower NI 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

At present, the earliest age when you can retire from a registered pension scheme in the UK without tax penalties is usually 55. This is known as the Normal Minimum Pension Age (NMPA). However, if you are in ill health, you may be able to access your pension before you reach this age.

If you're planning to take early retirement in a few years' time, it's important to note that from 6 April 2028, the NMPA will rise from 55 to 57 so that it remains 10 years below the State Pension Age (SPA). Anyone born between 6 October 1954 and 5 April 1960 will reach their SPA on their 66th birthday. Anyone born after 5 April 1960 will have a SPA of 67 or higher as the Government plans to further increase the SPA in the future, and has already introduced proposals to raise it to 68.

Your annual pension increase...

Whatever State Pension you receive, the amount is usually increased annually (under the government's "triple lock") in line with either the growth in average earnings, the rise in the Consumer Prices Index, or 2.5% (whichever is the highest). As a result, the increase from April 2023 was 10.1%.

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 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.

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 Retirement Solutions, Sutherland House, Russell Way, Crawley, West Sussex, RH10 1UH**. Helpline: **0333 207 5956** Email: novartis@equiniti.com

