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From Strategy to Implementation:

What Does Good Look Like for Well-Funded DB Schemes?

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.



Marketing material

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Introduction

From fixed endgames to flexible journeys

Defined benefit schemes are entering a new phase, but their fundamental objective remains unchanged: securing members' benefits. With funding positions having improved significantly over the past five years, many schemes are now better placed to consider how they can secure and, where appropriate, enhance members' long-term outcomes. At the same time, continued innovation across the pensions industry has expanded the range of options available to schemes, creating alternatives to traditional buyout such as superfunds and sponsor swaps.

Importantly, these options do not need to be viewed as mutually exclusive. Trustees may be able to keep several routes open rather than committing to a single destination today. This means thinking in terms of a five-to-10-year journey, with clear milestones and decision points along the way. The aim is to achieve the best outcomes for members while retaining the flexibility to respond as circumstances evolve.

For some, pension risk transfer, via insurance, superfund or sponsor swaps may remain the preferred route; others may choose to run on, potentially creating opportunities to use surplus to support members' outcomes. In this article, we explore why navigating this landscape requires a clear strategy.

To thrive in this environment, schemes must bring together three interconnected capabilities:

Strategic vision	Risk-aware governance	Effective execution
Define what the scheme is trying to achieve for members and which options it wants to preserve, rather than treating buyout, run-on or surplus as isolated decisions.	Establish clear decision rights, triggers and guardrails, supported by scenario analysis and continuous monitoring of funding, investment, liquidity and covenant risks.	As strategic choice expands, governance and risk management are no longer administrative necessities. They are strategic capabilities. The schemes best placed to succeed will be those that can preserve choice, make well-informed decisions, and act when the right opportunities emerge.

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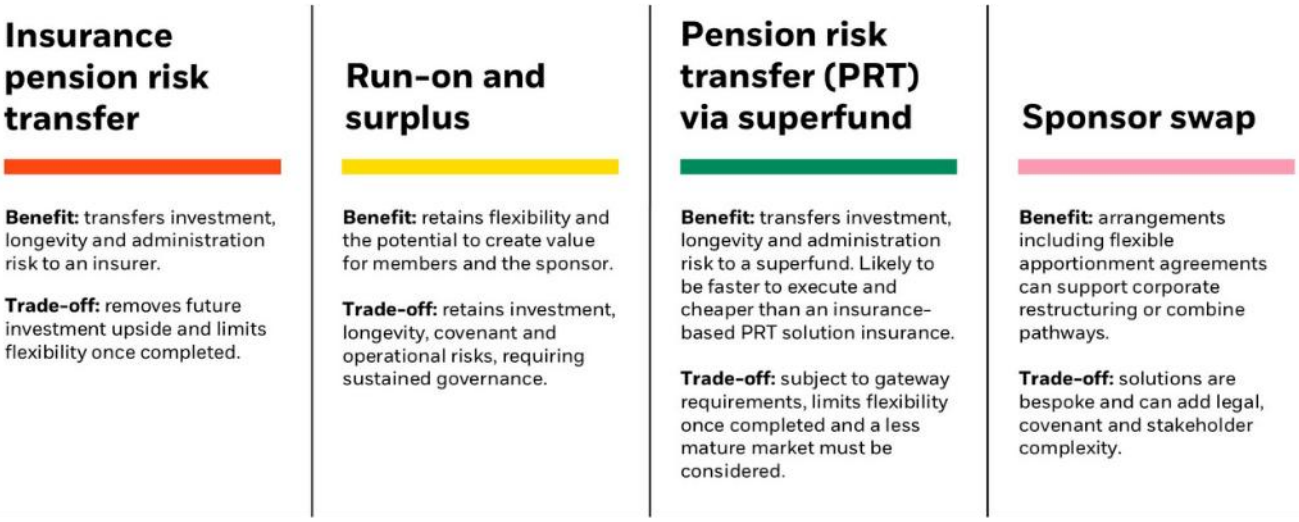
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Director

The endgame landscape: Different pathways, different trade-offs

Each pathway involves different trade-offs across member security, future upside, sponsor involvement, risk transfer and governance requirements. The comparison below provides a high-level overview of these differences; the relative merits of each option will depend on the scheme's specific circumstances and objectives and are explored in greater detail in our paper *Unlocking Surplus with Confidence*.

Figure 1: The defined benefit optionality map

Four potential pathways and their respective benefits and trade-offs



What does success look like for a well-funded defined benefit scheme?

For a well-funded defined benefit scheme, success is not simply about reaching a particular funding level or creating surplus. Ultimately, it is about having the strategic resilience and control needed to protect and, where appropriate, enhance members' long-term outcomes across a multi-year journey rather than racing towards a single endpoint. It is about understanding the scheme's long-term objectives for members and having a clear framework to support that journey.

Because there is rarely a single 'correct' destination to define today, a dynamic path provides a much clearer and more practical approach. By mapping key milestones, triggers and decision points, the plan can evolve alongside changing circumstances.

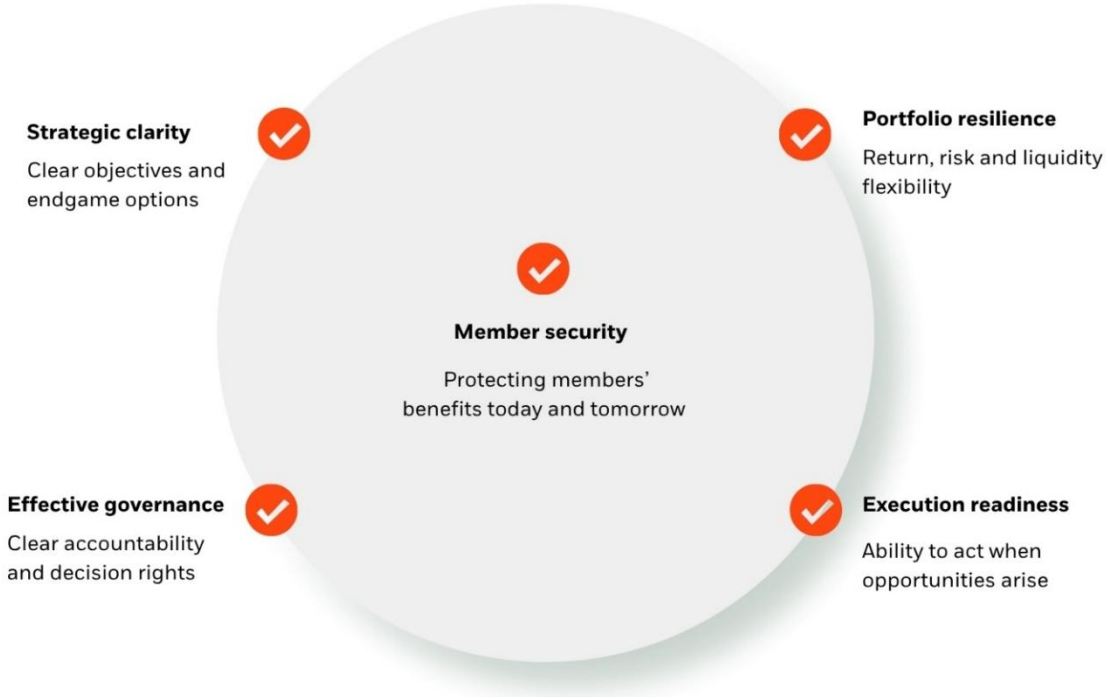
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This, in turn, gives trustees greater clarity when pathways may become more or less attractive. Importantly, the aim of a journey plan is not to predict the future or eliminate uncertainty, but to build the institutional readiness to navigate it – equipping trustees with the governance, decision rights, and operational capability needed to act when the right moments arise.

This readiness is becoming increasingly important as the regulatory landscape evolves. While early movers often relied on complex legal and structural workarounds to access surplus, the evolving regulatory landscape is opening up a more straightforward path to direct release.

Figure 2: Turning optionality into action

Optionality creates choices. Trustees need the capability to act.



Designing for optionality: How do you prepare the investment strategy?

As schemes design for optionality, portfolios need to support a fluid journey rather than a fixed endgame. Portfolio construction must, therefore, reflect how the scheme's funding position and objectives may evolve, balancing return generation, protection, liquidity and flexibility. The purpose is not simply to give trustees more choice, but to ensure the scheme can respond to changing circumstances in a way that supports the security and long-term value of members' benefits.

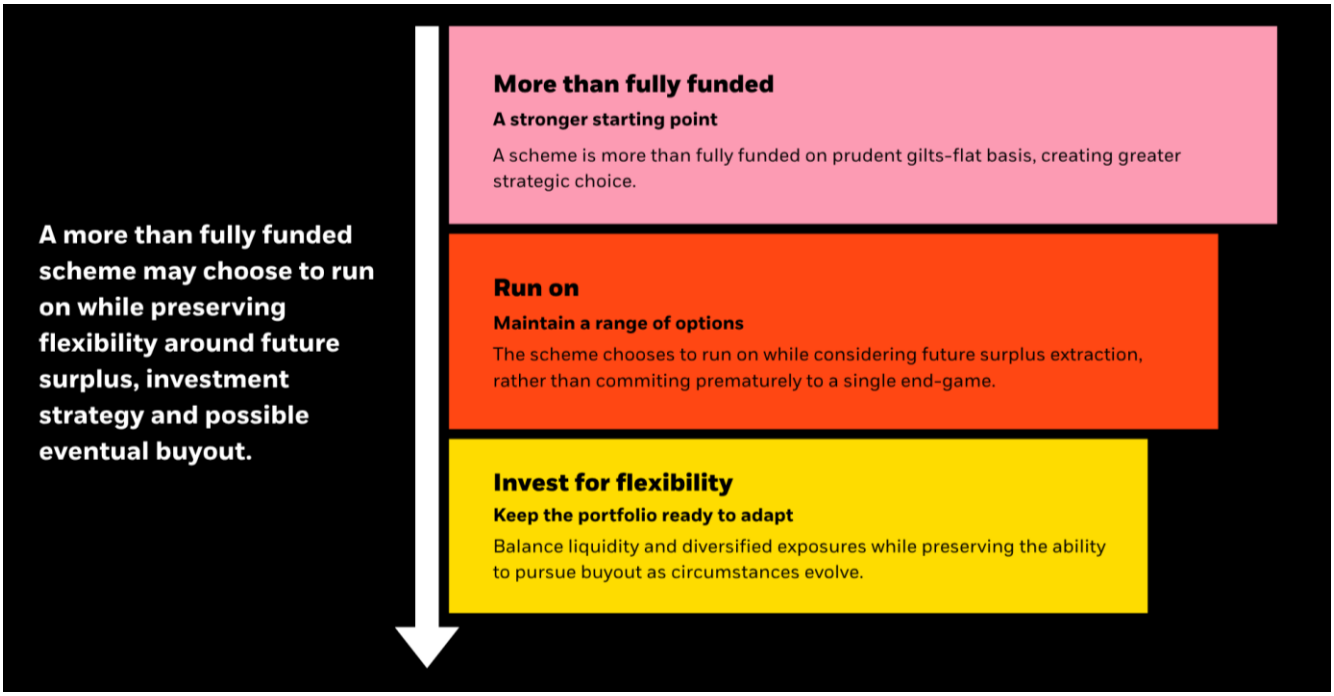
Crucially, portfolios must also be operationally ready to react as circumstances change. This means having the necessary liquidity, investment capabilities and implementation processes in place in advance, supported by technology and a clear risk framework.

Bringing together portfolio exposures, risk metrics, liquidity and expected cashflows across public and private assets can provide a more complete view of the portfolio and allow emerging risks or opportunities to be identified and acted upon.

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Investing for flexibility: Preparing for more than one outcome

Figure 3: An illustrative example



Taking an illustrative example, a scheme that is more than fully funded on a prudent gilts-flat basis might prefer to run on, while a framework for future surplus extraction is considered. A smaller proportion of the portfolio might remain in growth assets, including illiquid private markets, predominantly providing contractual cashflows. Meanwhile, the matching portfolio could include a meaningful allocation to buy-and-maintain credit and securitised credit.

Rather than committing prematurely to a single endgame, the scheme ensures its portfolio evolves to preserve flexibility. As funding improves, the focus is on progressively reducing investment risk and increasing liquidity, while maintaining appropriate cashflow generation.

For a scheme whose objective is to run on, this allows it to retain the ability to pursue buyout if attractive insurance pricing creates an opportunity. In parallel, buyout pricing is monitored and liability-side preparations, including member data readiness, continue to progress. The result is a strategy designed not simply around the preferred destination, but around maintaining the ability to change course as circumstances evolve and opportunities emerge.

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The governance challenge: Can the governance model support this?

Greater optionality also places new demands on pension scheme governance. Traditionally, governance models were designed for a world in which investment decisions could follow a linear process: an investment adviser recommends a change, trustees consider and approve it, and the decision is then passed to the relevant managers for implementation. But where schemes are considering running on for a defined period, while retaining the option to pursue an alternative endgame, governance needs to support a more fluid and responsive approach.

An important starting point is for trustees to establish the time horizon over which they intend to run on, and the objectives they want to achieve during that period. This provides a framework for investment strategy, risk management and operational planning, without requiring a commitment to a particular endgame. The governance model should then support both the delivery of the strategy and the ability to reassess it as circumstances evolve.

> **Optionality is only valuable if you can act on it.**
>
> **Cyprian Njamma**
> Director

This means establishing clear review points and identifying the funding, investment, market or regulatory developments that might prompt a change in direction. Translating this into practice requires clarity around decision-making responsibilities and the level of delegation appropriate at each stage of the journey. For some schemes, this may mean considering a more delegated model, such as OCIO, where defined investment decisions can be implemented within parameters agreed by trustees.

By clearly defining which decisions could be delegated and when trustees must be directly involved, boards can remain focused on the choices that genuinely require their collective judgement. This approach also reduces bottlenecks and avoids decision paralysis, enabling schemes to respond deliberately and efficiently as opportunities and risks emerge.

There is no single model for achieving this balance. As schemes face greater complexity and a wider range of potential decisions, the right model will depend on the scheme's circumstances, trustee capability and the speed at which decisions may need to be made.

For some schemes, traditional advisory arrangements may remain appropriate. Others may benefit from targeted specialist implementation support or partial delegation of agreed investment decisions, while some may prefer to delegate broader investment responsibilities through a more integrated management approach.

For schemes that opt for this integrated path, the shift could also unlock significant operational and commercial efficiencies, notably by cutting out service duplication across different providers. The important point is that delegation can be calibrated to the scheme's needs, rather than being an all-or-nothing choice.

In practice, trustees can retain oversight of strategic decisions while agreeing in advance the parameters within which delegated decisions can be made. Ultimately, good governance is not simply about making decisions faster. It is about ensuring trustees can deliver their chosen strategy while retaining the ability to change course when circumstances or opportunities warrant it.

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Turning strategy into action

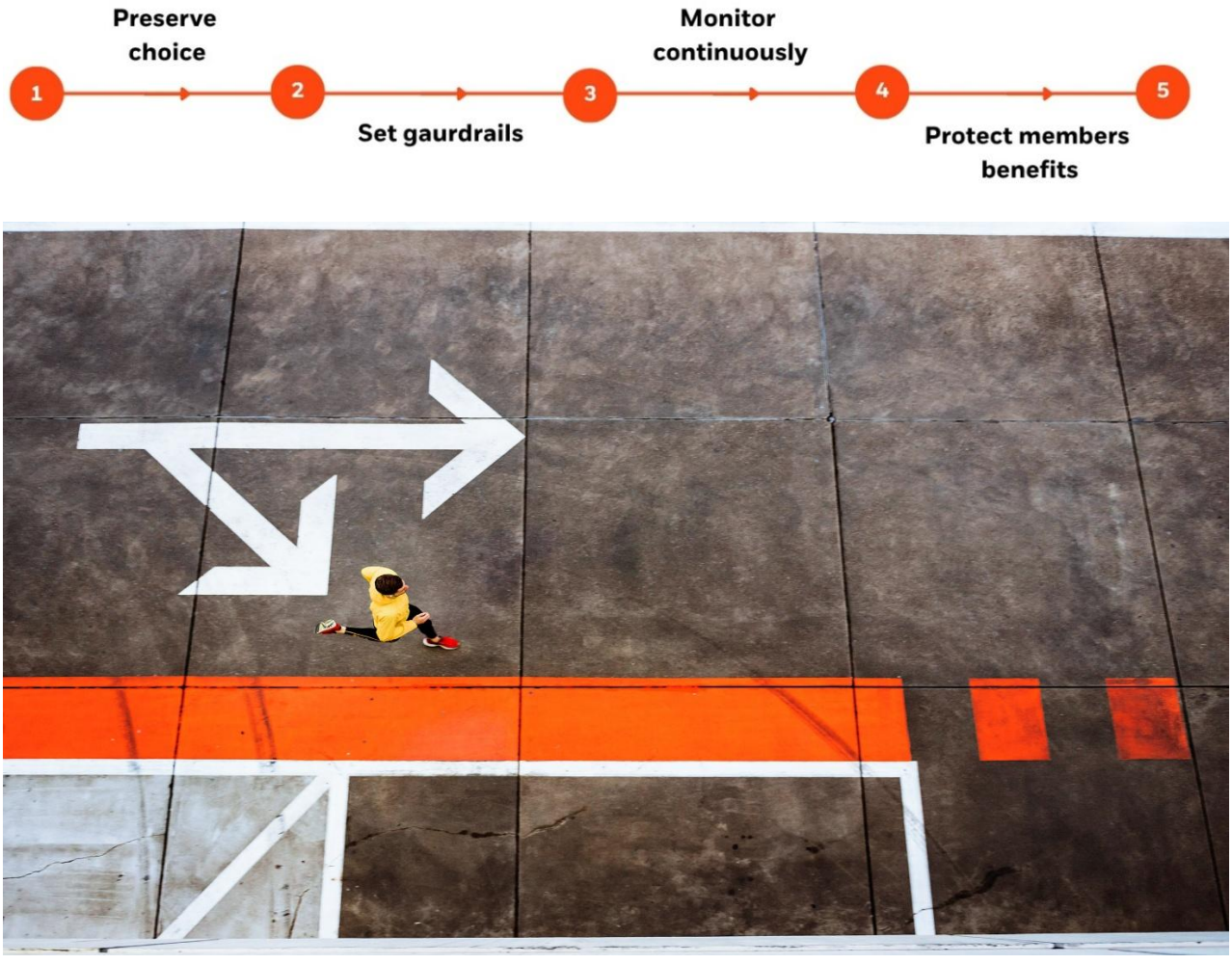
A clear strategy and effective governance are only valuable if decisions can be translated into action. This requires the operational infrastructure and capabilities to execute efficiently once an agreed decision or milestone is reached. Importantly, the steps required to implement those decisions should be considered from the outset, rather than new arrangements being built when an opportunity arises.

Continuous monitoring is central to this. This means ensuring funding levels, portfolio risks, liquidity, covenant developments and market conditions are assessed together against the agreed decision framework, rather than as a series of disconnected events.

Effective implementation also requires coordination beyond the investment portfolio. Actuarial, legal, covenant and operational considerations can all influence whether a strategic decision is viable and how quickly it can be implemented.

Bringing these elements together allows strategy, governance and implementation to operate as one connected process. This enables trustees to respond effectively as circumstances and opportunities evolve.

Figure 4: The pathway to protecting member benefits



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Conclusion: Optionality only matters if you can act on it

Optionality is only valuable when you are able to act on it. Having the freedom to choose between buyout, run-on or a superfund is of limited practical benefit if a scheme is unable to capture those opportunities when they arise. The challenge is, therefore, not simply to preserve choice, but to build the capability to exercise it.

For a well-funded defined benefit scheme, success is less about having every future decision mapped out and more about being prepared to make good decisions as circumstances evolve, with members' long-term security and value at the centre of those decisions. That starts with clear long-term objectives, an understanding of the pathways available, and scenario testing that brings the trade-offs into focus.

A well-prepared scheme has a portfolio aligned with those objectives, clear decision parameters and pre-agreed triggers. Trustees understand which decisions require their judgement, while accountability for implementation is clear, and the investment and operational capabilities needed to act are established in advance. Continuous monitoring then allows the scheme to respond as funding, markets and circumstances evolve.

Ultimately, the schemes best positioned to succeed will be those that can combine long-term direction with the ability to adapt along the way. By keeping members' long-term security and value at the centre of decision-making, trustees can ensure that flexibility serves a clear purpose: delivering the best possible outcomes for members.

For more information head to the website.

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