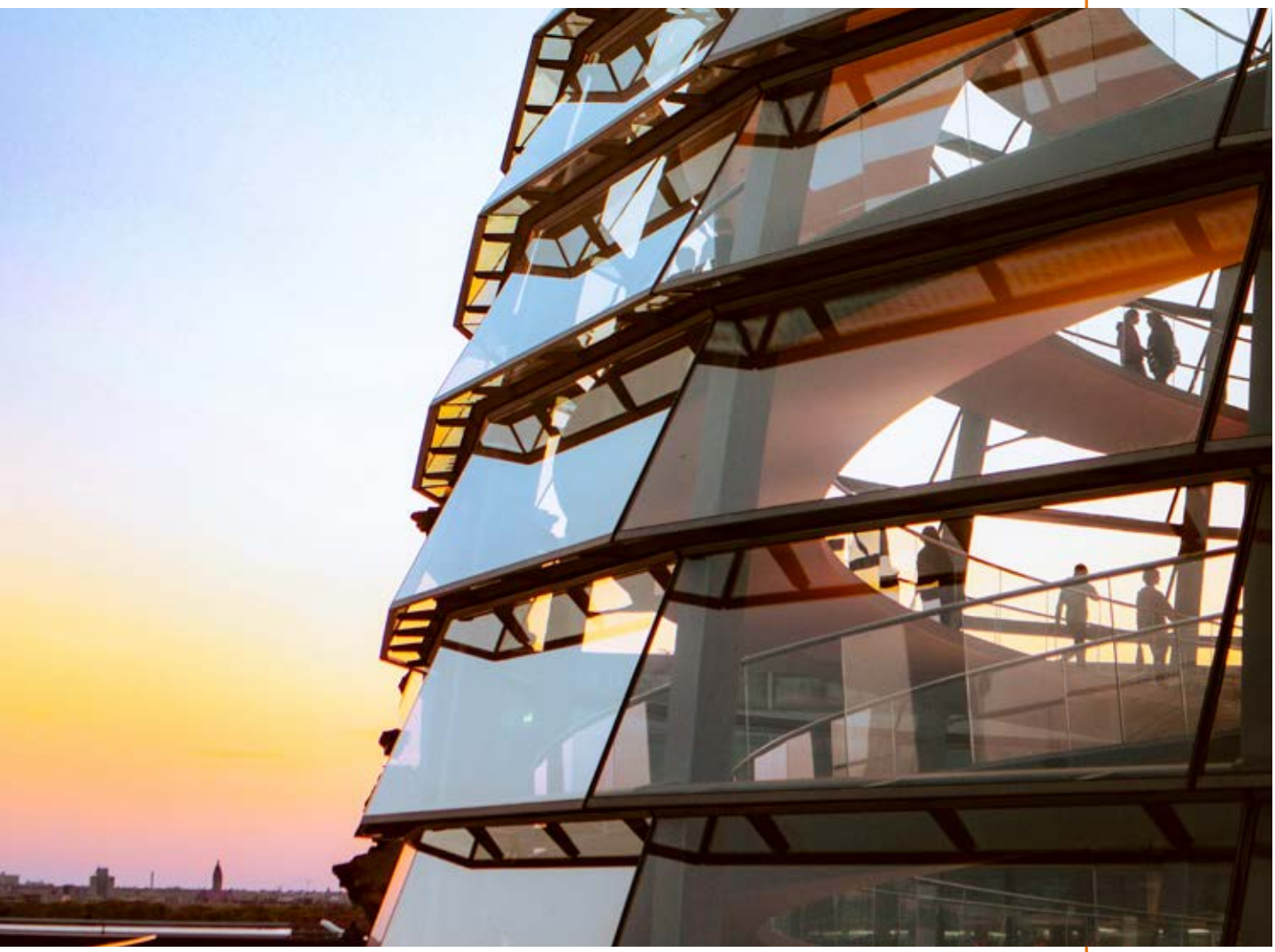
Russell Investments



Running on with purpose

Creating value while balancing security and flexibility

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At a glance

Running on is increasingly a credible option for well-funded defined benefit (DB) schemes, but the opportunity to run on does not necessarily mean that schemes should.

This paper considers run on through an investment and governance lens, focusing on a central question:

How can schemes generate meaningful value from running on, while protecting member security and preserving the flexibility to change course?

We consider:

- **The opportunity**: when does run on generate meaningful net value after costs?
- **The framework**: what should trustees establish before seeking to generate and release surplus?
- **The investment strategy**: how can core and surplus portfolios balance resilience and return?
- **The journey**: how should risk, surplus release and future endgame options evolve over time?

These principles come together through FLEX, our investment framework for navigating the DB endgame.



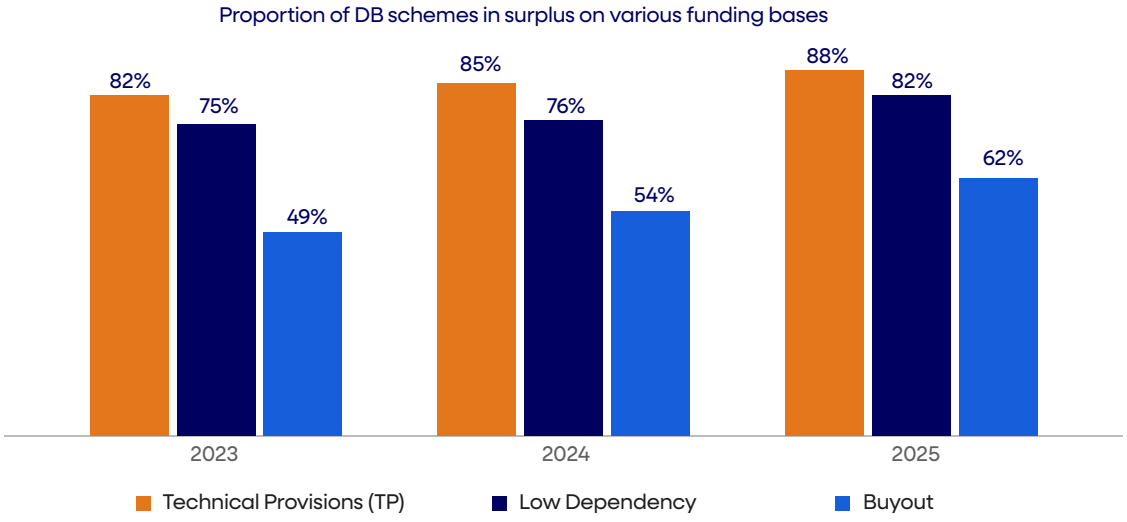
Background

After many years focused on repairing deficits, a growing number of DB pension schemes are now in a position of financial strength. Higher interest rates, investment returns and substantial sponsor contributions have all contributed to this improvement.

The Pensions Regulator (TPR) data illustrates the scale of this improvement. As at 31 December 2025, 82% of schemes were in surplus on a low dependency basis, representing a cumulative surplus of £160 billion, while 62% were also estimated to be fully funded on a buyout basis.

The result is a very different funding environment.

Funding surpluses rise



Source: TPR Annual Funding Statements, as at 31 December each year.

New funding environment, new questions

The transformation in funding levels has changed the question facing trustees and sponsors. For much of the last two decades, the priority was how to close the deficit while protecting member benefits. Today, the question is different:

> What should a scheme do with its financial strength?

Improved funding has not only strengthened scheme balance sheets but also created strategic choice. Trustees and sponsors can now consider how best to use that financial strength to protect member benefits, create additional value and retain flexibility for the future.

Depending on a scheme's circumstances and objectives, it can consider a range of endgame approaches, including:

- Securing members' benefits through an **insurance buyout**
- Operating on a **low dependency** basis
- Transferring to a **consolidation** solution, including a superfund
- Continuing to run **the scheme beyond full funding**, with the potential to generate **surplus**

Strong funding has given many DB schemes something they haven't had for years: genuine choice. But the arrangements that got a scheme out of deficit won't necessarily make the most of a surplus. Run-on demands a whole-scheme view, where integration is the objective and structure is the means.

Raj Goswami, PwC

Choice alone doesn't equal value

These options are not mutually exclusive. A scheme may run on for a period before ultimately pursuing an insurance transaction, while changing circumstances may alter the preferred destination over time. Every endgame option carries costs. For trustees and sponsors, the challenge is to identify the route that delivers the greatest value after taking those costs and associated risks into account.

Running on itself can also take different forms. For some schemes, the objective may be to actively generate and ultimately release surplus. For others, it may be to maintain a resilient position above low dependency, allowing the scheme to mature while retaining the flexibility to transact when insurer pricing is more attractive.

The growing optionality surrounding endgame is reflected in shifting scheme objectives. Russell Investments' 2025 UK Defined Benefit Market Insights Study found that 32% of respondents were targeting either run on or low dependency run off, compared with 27% a year earlier. Against this backdrop, running on has moved into mainstream strategic discussions for well-funded schemes.

Purpose of the paper

To assist sponsors and trustees in their decision-making process, this paper considers run on primarily through an investment and governance lens and seeks to answer a fundamental question:

> How can schemes generate meaningful value from running on, while protecting member security and preserving the flexibility to change course?

We focus on the economics of running on and the investment strategy and governance framework required to deliver it, including how surplus can be generated, protected and released within appropriate risk parameters. While the paper primarily considers schemes seeking to actively generate surplus, many of the principles are equally relevant to schemes pursuing a lower risk run on approach.

We do not seek to determine how surplus should ultimately be shared between stakeholders, or address the legal, tax or scheme specific requirements governing its release. These remain important considerations for trustees and sponsors alongside their relevant advisers.



Assessing the opportunity to run on

Improved funding may have created the opportunity to run on, but not every well-funded scheme should do so. The starting point should be whether continuing the scheme can generate meaningful net value after allowing for the costs, risks and governance involved, while maintaining a high degree of security for members.

From an investment perspective, this means considering the potential value generated by targeting a return above the amount required to maintain a low dependency position. Moreover, additional return alone is not enough. What matters is the value remaining after the costs of continuing to operate the scheme have been considered.

The economics of run on

One potential pitfall for DB schemes determining whether to run on or not is to equate additional investment returns with additional value. Running on carries ongoing costs, including administration, governance, actuarial and covenant advice, investment management and implementation, as well as the eventual costs of extracting and distributing surplus.

There is no single cost of running a DB scheme, with expenses varying materially by scheme size, complexity and governance model. As a useful reference point, industry discussions commonly place an efficient level of non-investment running costs at around £150,000 to £200,000 per annum for smaller schemes, before investment-related expenses.

> The objective of a run on strategy should not only be to generate a surplus. It should be to generate meaningful net value above the cost of running on.

The heat map on page 7 illustrates the annual additional investment return generated by achieving between 75 and 150 basis points above a self-sufficiency portfolio across schemes of different sizes.

When does run on create meaningful net value?

Scheme assets (AUM)	Additional return above self sufficiency			
	+75 bps (0.75%)	+100 bps (1.00%)	+125 bps (1.25%)	+150 bps (1.50%)
£25m	£188k	£250k	£313k	£375k
£50m	£375k	£500k	£625k	£750k
£75m	£563k	£750k	£938k	£1.125m
£100m	£750k	£1.0m	£1.25m	£1.5m
£250m	£1.875m	£2.5m	£3.125m	£3.75m
£500m	£3.75m	£5.0m	£6.25m	£7.5m
£1bn	£7.5m	£10.0m	£12.5m	£15.0m

Below £500k
Limited value after costs and taxation[1].

£500k – £1m
Potential for meaningful value depending on scheme-specific factors.

£1m+
Greater potential for meaningful net value after allowing for costs, taxation and surplus extraction.

1. Illustrative minimum value threshold only. The appropriate threshold will vary between schemes and should reflect annual running costs (including non-investment and investment costs) plus the level of additional net value trustees and sponsors consider sufficient to justify run on.

2. Based on industry feedback for cost estimates in 2026. Includes administration, governance, actuarial and covenant advice.

Source: Russell Investments analysis.

Indicative annual operating costs[2]

£150k – £200k
(non-investment)

Relatively fixed costs to run the scheme, before investment costs, tax and surplus extraction costs.

Dotted line shows the £500k threshold

Only values at or above £500k are included within the highlighted area, illustrating where the economics of run on may be more compelling.

Scheme size matters – but net value is key

For a £25 million scheme, even 150 basis points of additional return generates only £375,000 each year before costs. By comparison, 75 basis points generates £750,000 for a £100 million scheme and £3.75 million for a £500 million scheme. Relatively fixed running costs therefore become progressively smaller compared with the potential value generated as scheme size increases.

Our analysis uses approximately £500,000 of annual value as an illustrative threshold below which the economics may be less compelling. This is not intended to represent a universal minimum. The appropriate hurdle should reflect the scheme's cost base and the level of additional value trustees and sponsors consider sufficient to justify the associated risk and governance.

Importantly, there should not be a predetermined scheme size above which run on becomes viable. Scale and efficiency need to be considered together. A smaller scheme with an efficient governance and operating model may have a stronger economic case than a larger scheme with a higher cost base. Nor does targeting a higher return automatically strengthen the proposition. Additional expected return generally requires additional investment risk.

Therefore, the question is not how much surplus can be generated, but whether the expected net value is sufficient to justify the additional costs and risks required to generate it.

What should Trustees consider beyond economics?

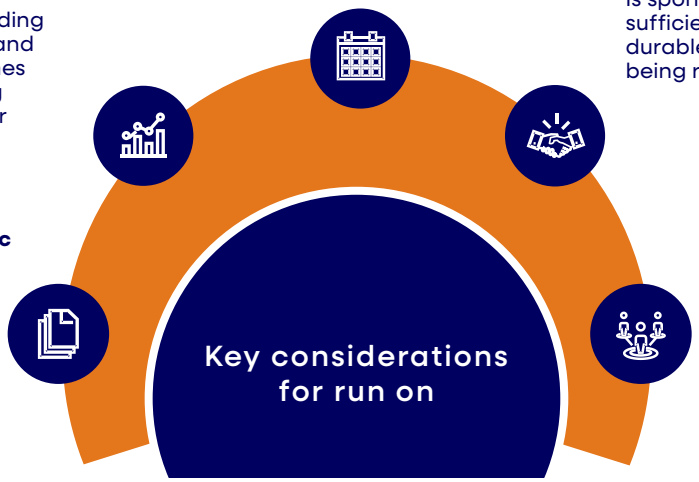
Identifying a positive economic case for running on is an important first step, but it does not on its own make run on an appropriate endgame. Once the potential for meaningful net value has been established, trustees should consider whether the characteristics of their scheme provide the capacity and the circumstances to pursue that opportunity.

Drawing on regulatory guidance and wider industry thinking, we believe five areas warrant consideration:

As schemes look to run on, we shouldn't underestimate the increased governance burden of doing this successfully. The monitoring, reporting, complexity and decision-making processes required will all need careful design and robust implementation. This requires a trustee board with the appropriate skills and experience, alongside expert advisers who are actively engaged and able to deliver.

Ben Salmons, Vidett

Is your scheme positioned to run on?



Scheme maturity and time horizon

Do the liability profile, benefit cash flows and intended period of run on provide sufficient time and liquidity for the strategy?

Funding and resilience

Is there an appropriate funding buffer to withstand adverse outcomes while continuing to meet member benefits?

Employer covenant

Is sponsor support sufficiently strong and durable for the risks being retained?

Legal and scheme specific consideration

Do the scheme rules, benefit structure, data, tax position and other scheme specific factors support the intended approach?

Governance and operational capability

Does the scheme have the expertise, decision making framework and implementation capability required to manage a dynamic strategy effectively?

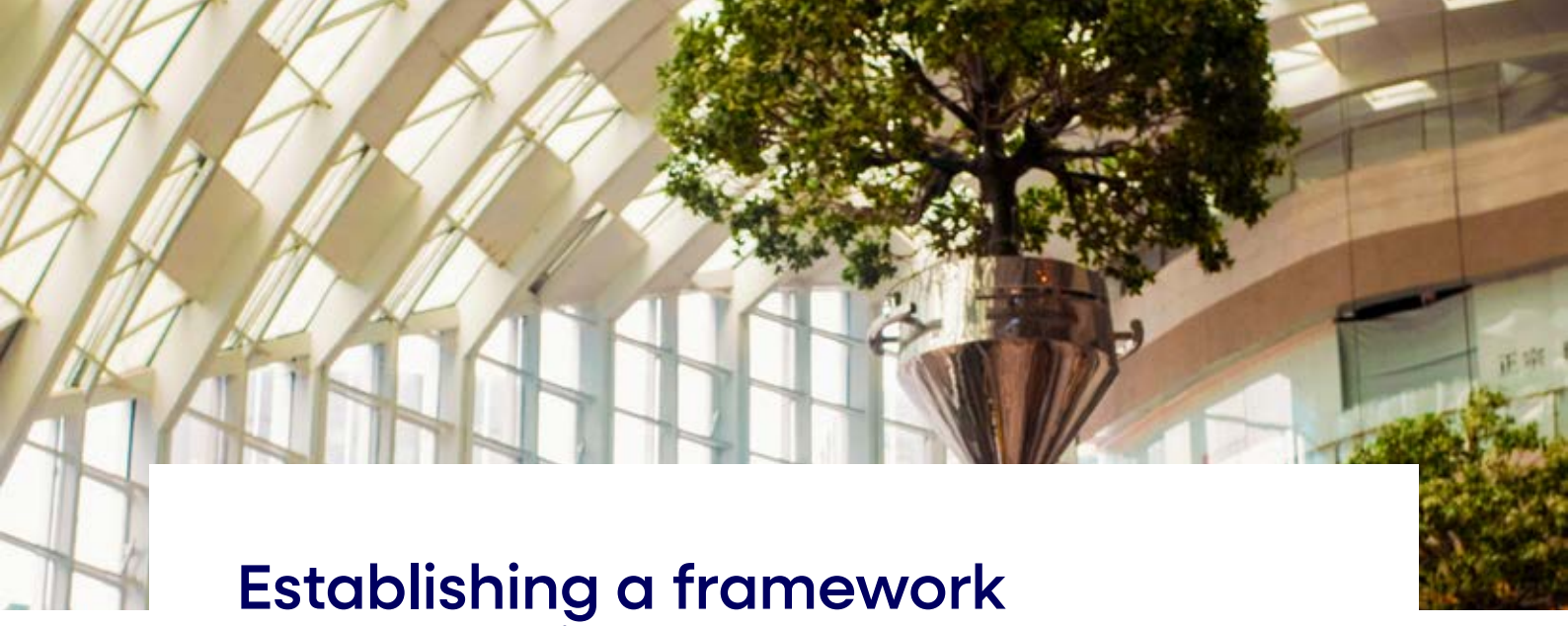
Source: Russell Investments. For illustrative purposes only.



These considerations are interconnected. For example, the capacity to take investment risk will depend not only on the funding position but also on scheme maturity, covenant strength and governance capability. The assessment is therefore inherently scheme-specific.

Governance deserves particular attention. Running on well may increase rather than reduce the governance demands on a scheme. Trustees may need to monitor a broader range of investment risks, funding and liquidity more frequently, consider surplus release and regularly reassess whether running on remains appropriate. This additional complexity, resource and cost should form part of the initial assessment of whether run on can generate meaningful net value. The governance model therefore needs to match the ambition of the strategy. For some schemes, appropriate delegation can provide the resource, expertise and speed of decision making required, while allowing trustees to retain control over the objectives and key parameters.

Ultimately, establishing that run on is economically attractive and potentially feasible is only the starting point. If trustees and sponsors decide to proceed, the next step is to determine what surplus is intended to achieve, what should remain protected and the framework within which it can ultimately be managed and released.

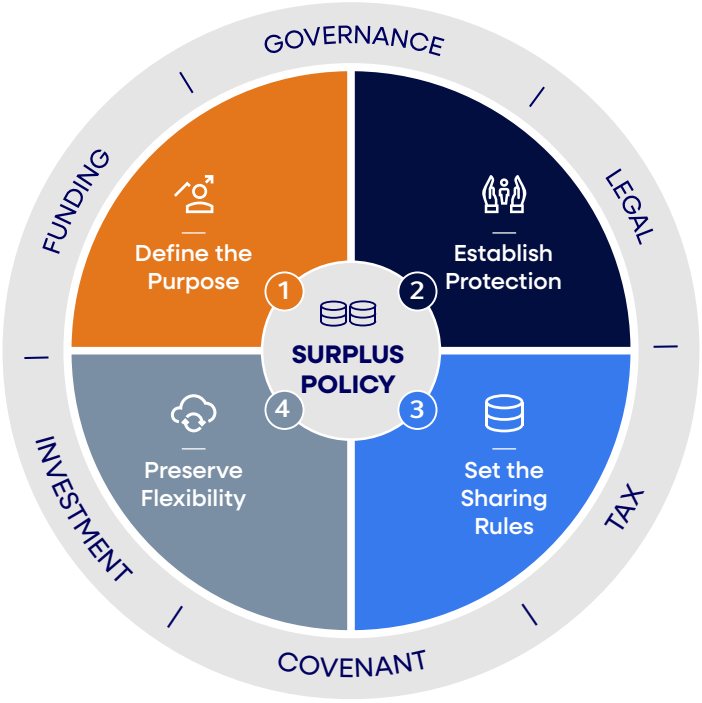


Establishing a framework for managing surplus

Once trustees and sponsors have determined that running on has the potential to create meaningful net value, attention should turn to how that value will be managed. Rather than determining how to use surplus only once it emerges, a clear framework should be established from the outset, setting out its purpose, the protection required and the circumstances in which value can ultimately be released. This is particularly important given the potentially long time horizon associated with running on. Funding, markets, sponsor circumstances and endgame objectives can all change over time.

There is no single surplus policy appropriate for every scheme. It should reflect the scheme's objectives and circumstances and be informed by relevant funding, covenant, legal and tax considerations. We believe there are four fundamental points trustees and sponsors should address:

Fundamentals to pension surplus policy



Source: Russell Investments. For illustrative purposes only.

1 Define the purpose

The starting point should be a clear understanding of what the surplus is for. It could be used to improve member benefits, return value to the sponsor, support wider pension provision, provide additional security within the scheme or support a future endgame.

Clarity of purpose matters because it shapes the required return, risk appetite and time horizon. Investment strategy should follow the purpose of surplus, rather than surplus simply being the consequence of an investment strategy.

2 Establish protection

Member security remains fundamental to any run on strategy. Trustees should determine the level of funding resilience that must be maintained before surplus is considered available for release.

This should reflect the risks retained by the scheme, including investment and liability risk, liquidity requirements and the strength of the employer covenant. An appropriate buffer provides resilience against adverse outcomes while allowing surplus above that level to be considered for other purposes.

3 Set the sharing rules

Once the purpose and required protection have been established, the policy should define when and how the surplus may be released.

This should include appropriate funding triggers, the amount or proportion that could be released, the frequency of distributions and the minimum level of resilience that should remain afterwards. Importantly, reaching a threshold should allow a distribution to be considered, rather than automatically trigger one.

4 Preserve flexibility

A surplus policy should define not only when value can be shared, but also when it should be retained.

Funding, covenant, markets and endgame opportunities can all change over time. The framework should therefore allow distributions to be suspended, risk to be adjusted and alternative endgame routes to be pursued where appropriate. Running on should preserve endgame choice rather than remove it.



Translating surplus policy to investment strategy

A surplus policy establishes the objectives and guardrails for running on, but it does not by itself deliver the required outcome. These requirements need to be translated into an investment strategy capable of generating value while protecting the funding position and retaining sufficient flexibility to respond as circumstances change.

At Russell Investments, we bring these considerations together through FLEX, our framework for navigating the investment challenges of the DB endgame:

There is a natural connection between the surplus policy and the investment requirements within FLEX:

Purpose › Long term outcomes

Protection › Funding resilience

Sharing rules › Execution and governance

Flexibility › Exit optionality

The next section applies these principles in practice, considering how the investment strategy, journey plan and approach to surplus release can be constructed for schemes running on.

Exit optionality

Retain the flexibility to change course, including moving towards an insurance transaction or another endgame where appropriate.

Execution and governance

Combine strong implementation with an effective governance structure and appropriate delegation.



Funding resilience

Protect the funding position and understand the scheme's capacity to take investment risk.

Long term outcomes

Construct an investment strategy aligned to the outcome trustees and sponsors are seeking to achieve.

Source: Russell Investments. For illustrative purposes only.

Running on gives trustees a longer investment horizon, but it does not remove the need for active monitoring of investment outcomes and potential risks. It will allow schemes to revisit how climate change, stewardship and other sustainability factors affect long-term outcomes, while considering opportunities in areas such as the energy transition, infrastructure and private markets. Any ambition must remain grounded in member security, governance and deliverability.

Caroline Allensby-Green, Dalriada



Putting a run on strategy into practice

A two-portfolio investment approach

Once the objectives and guardrails for running on have been established, the investment strategy needs to balance two requirements: **protecting the funding position** and **generating sufficient return** to create meaningful surplus.

We believe it is helpful to think about the scheme's assets as serving two distinct purposes: a core portfolio and a surplus portfolio. These do not need to be physically segregated or managed independently. Rather, they provide a framework for understanding the role of different assets and how the scheme's overall risk budget is being deployed.

The core portfolio

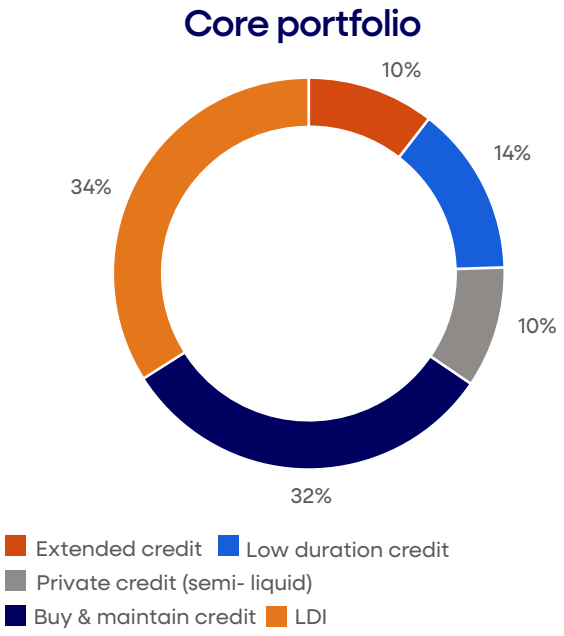
The core portfolio provides the foundation of the run on strategy. Conceptually, it is similar to the low dependency investment allocation under the DB Funding Code: a resilient portfolio designed to hedge the liabilities, meet member cash flows and scheme expenses, and maintain a high degree of liquidity and funding resilience.

However, for a scheme choosing to run on, the core portfolio does not need to be entirely return agnostic. Assuming a low dependency basis of gilts +0.5% per annum, our illustrative core portfolio (shown below) targets gilts +1.25% per annum, seeking additional return while retaining a predominantly protection-focused approach.

Its role is to fully hedge the low-dependency liabilities, generate cash flows to meet member benefits and scheme expenses, and maintain a high degree of liquidity and funding resilience. The portfolio would therefore be predominantly fixed income focused, incorporating:

- **LDI** to manage interest rate and inflation risk, while providing the collateral and liquidity flexibility required to support the wider portfolio.
- **Buy and maintain credit** to contribute to interest rate hedging while generating contractual income and predictable cash flows to help meet member benefit payments and scheme expenses.

- **Low duration credit** to capture credit premia while diversifying beyond traditional corporate bonds through securitised and other asset-backed fixed income exposures.
- **Extended credit,** including high yield and emerging market debt, to access additional sources of credit return and broaden diversification across markets and issuers.
- **Semi-liquid private credit** to access additional contractual income and return premia, while diversifying public credit exposure where the scheme has capacity for some illiquidity.



Source: Russell Investments based on capital market assumptions as at 30 June 2026. For illustrative purposes only.

Expected return	Gilts + 1.25% p.a.
% portfolio which can be sold in a week	90%
Hedging target	100% of low dependency liabilities

Longevity matters

Longevity remains an important risk for schemes choosing to run on. While changes in longevity typically emerge over time rather than as an immediate market shock, adverse experience can gradually erode the funding position. Maintaining a strong funding position, continuing to generate surplus and retaining an appropriate dynamic risk buffer can provide capacity to absorb this risk as it develops. As longevity hedging solutions become more accessible and cost effective, these could also form part of the wider risk management framework.

For some schemes, the core portfolio may be sufficient. Where the objective is to maintain a resilient position above low dependency rather than actively generate and release surplus, a predominantly core approach can allow the scheme to mature while retaining flexibility to transact when another endgame becomes attractive. In these scenarios the scheme may consider hedging solvency liabilities.

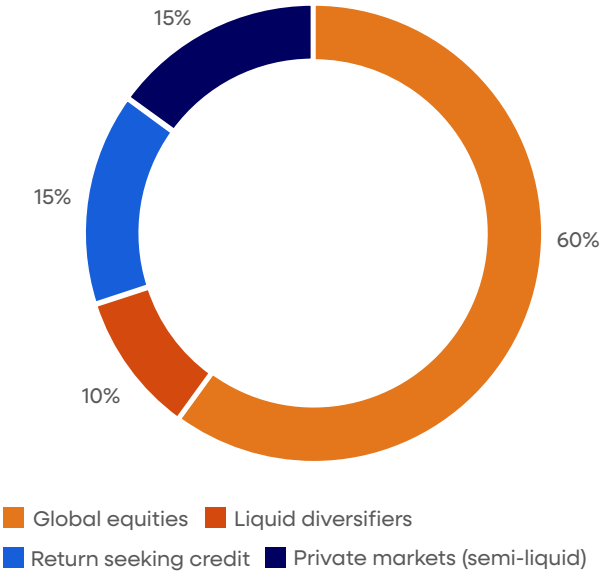
The surplus portfolio

For schemes seeking to generate additional value, the surplus portfolio deploys the risk capacity available above the core requirement to build meaningful surplus over time.

As liability hedging is provided through the core portfolio, we believe the surplus portfolio is better considered against a cash-based return objective. Our illustrative portfolio targets approximately cash + 4% per annum, drawing on Russell Investments' unconstrained growth portfolio thinking:

- **Global equities** to provide liquid exposure to long term growth and a significant source of return potential.
- **Diversifying strategies,** such as listed real assets, commodities and hedge funds, to broaden sources of return and reduce reliance on traditional equity markets.
- **Return-seeking credit** to access more specialist credit opportunities.
- **Semi-liquid private markets** to capture elements of the private market opportunity set while retaining greater flexibility than traditional closed-ended structures. This will include allocations to unlisted infrastructure and private equity, both in evergreen structures with exit possible after an initial lock up.

Surplus portfolio



Source: Russell Investments based on capital market assumptions as at 30 June 2026. For illustrative purposes only.

Expected return	Cash + 4.0% p.a.
% portfolio which can be sold in a week	80%

Importantly, the objective is not to maximise return. The surplus portfolio should seek the most efficient combination of return, risk and liquidity required to achieve the scheme's surplus objective. Liquidity is particularly important where surplus is expected to be distributed during the journey, with the portfolio needing a credible mechanism for converting investment gains into cash when the surplus policy permits. In our illustration, around 80% of the portfolio can be realised within one week, allowing the strategy to retain exposure to less-liquid return sources while maintaining sufficient flexibility to realise surplus when required.

One strategy, two purposes

The differentiation between core and surplus is conceptual rather than operational. Both should be managed as **one total scheme strategy**, with risk, liquidity and cash flows considered at portfolio level.

The core portfolio is aligned to the liabilities. Where it generates value above that required to support the low dependency position, that value can contribute to the surplus assets over time. The surplus portfolio then provides additional return potential on that growing surplus.

Together, they reflect the balance at the heart of FLEX: protecting funding resilience while investing towards clearly defined long-term outcomes.

Journey planning and surplus release

Setting the initial investment strategy is only the starting point. A run on strategy may operate for a decade or longer, during which funding, investment risk and the amount of surplus available for release will evolve. The investment approach therefore needs a journey plan, rather than simply a target asset allocation.

Central to this is determining how much surplus can prudently be released. We believe this should reflect the investment risk retained within the portfolio, rather than relying solely on a static funding threshold.

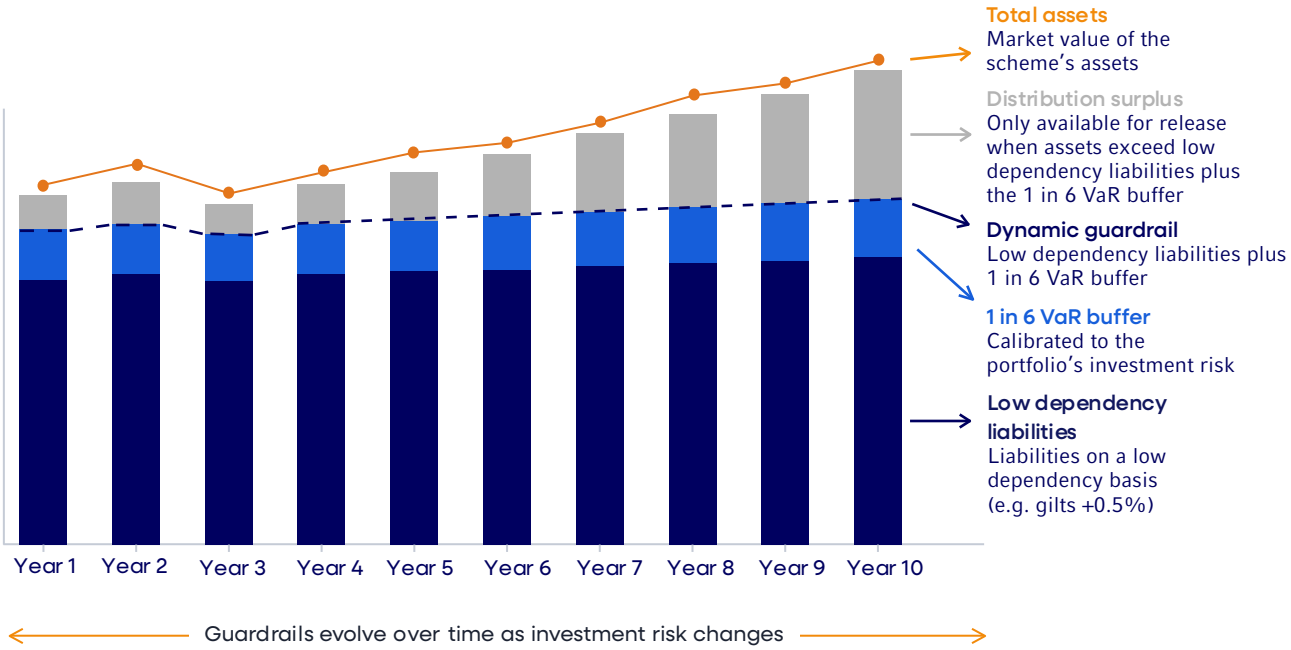
As surplus grows, the scheme may have greater capacity to allocate assets towards the higher returning surplus portfolio, increasing the potential downside from investment markets. We therefore apply a dynamic risk-based guardrail, calibrated by reference to the portfolio's Value at Risk (VaR), above the scheme's low dependency funding requirement:

In simple terms: **Low dependency liabilities + VaR = surplus release guardrail**

Only assets above this guardrail are considered potentially available for release. As the surplus portfolio and associated investment risk grow, the VaR buffer may also increase. Conversely, as surplus or investment risk reduces, the required buffer may fall.

This directly links the risk being taken to generate surplus with the amount that can prudently be released. The guardrail determines what could be available from an investment risk perspective; whether it should be released remains governed by the scheme's surplus policy.

The dynamic guardrail



Source: Russell Investments. For illustrative purposes only.

Illustrating different journeys

There is no single approach to surplus release. Depending on scheme rules and trustee and sponsor objectives, surplus could be retained, used to enhance member benefits, released to the sponsor, support wider pension provision or be used in combination.

To illustrate how different approaches interact with investment strategy and funding resilience, we consider two schemes with details below:

	£100m scheme	£500m scheme
Funding level at start	105%	105%
Duration	13 years	13 years
Expenses	£200k p.a.	£500k p.a.

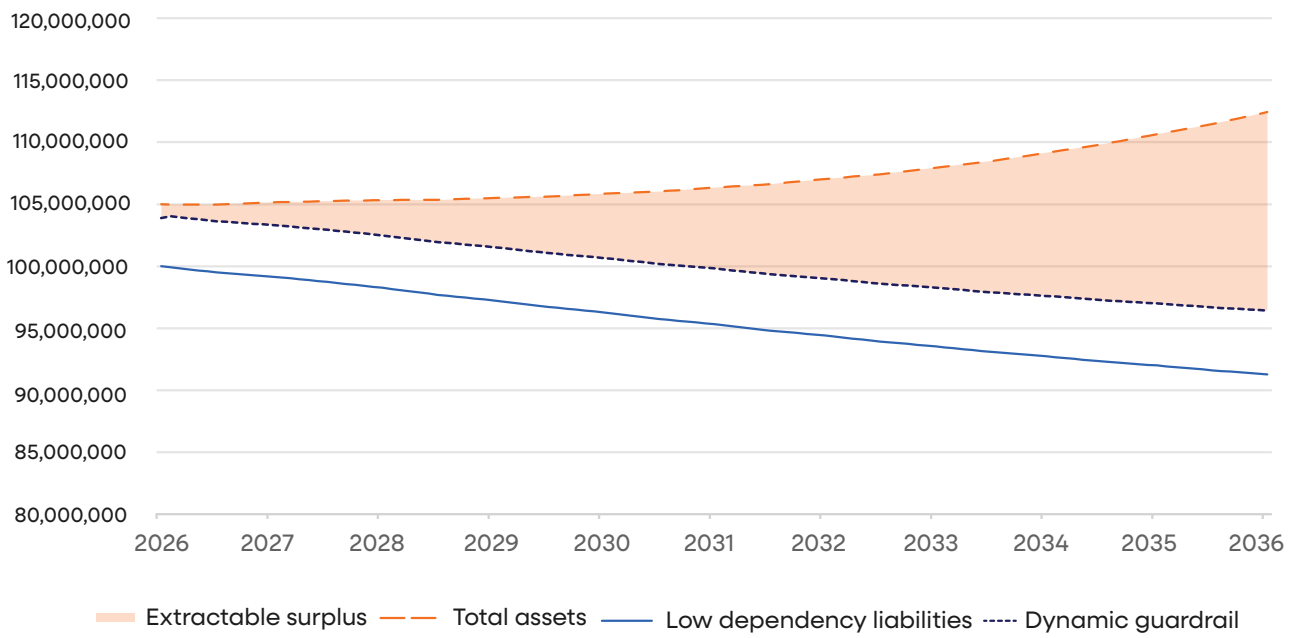
For both illustrations, the dynamic guardrail is calibrated annually using a 1 in 6 VaR. This is consistent with the level of downside testing referenced within the DB Funding Code when considering investment resilience, although its use here as a surplus release guardrail is our illustrative approach. Schemes may consider more prudent measures for greater resilience. Additionally, the guardrail evolves as the portfolio and level of investment risk change.

We then consider two simplified approaches to surplus release:

1 Build

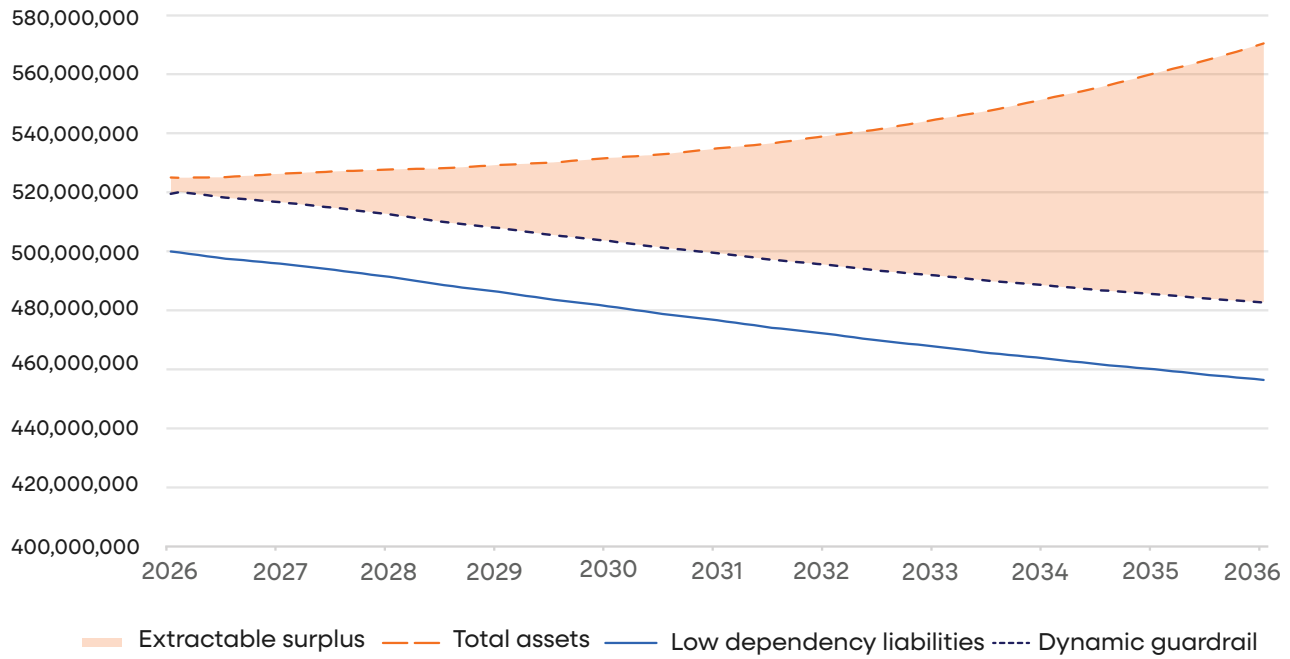
No surplus is released during the ten-year journey. All value generated is retained within the scheme, allowing surplus to compound over time.

£100 million scheme - build | Total surplus generated: £16m



Source: Russell Investments. For illustrative purposes only.

£500 million scheme - build | Total surplus generated: £89m



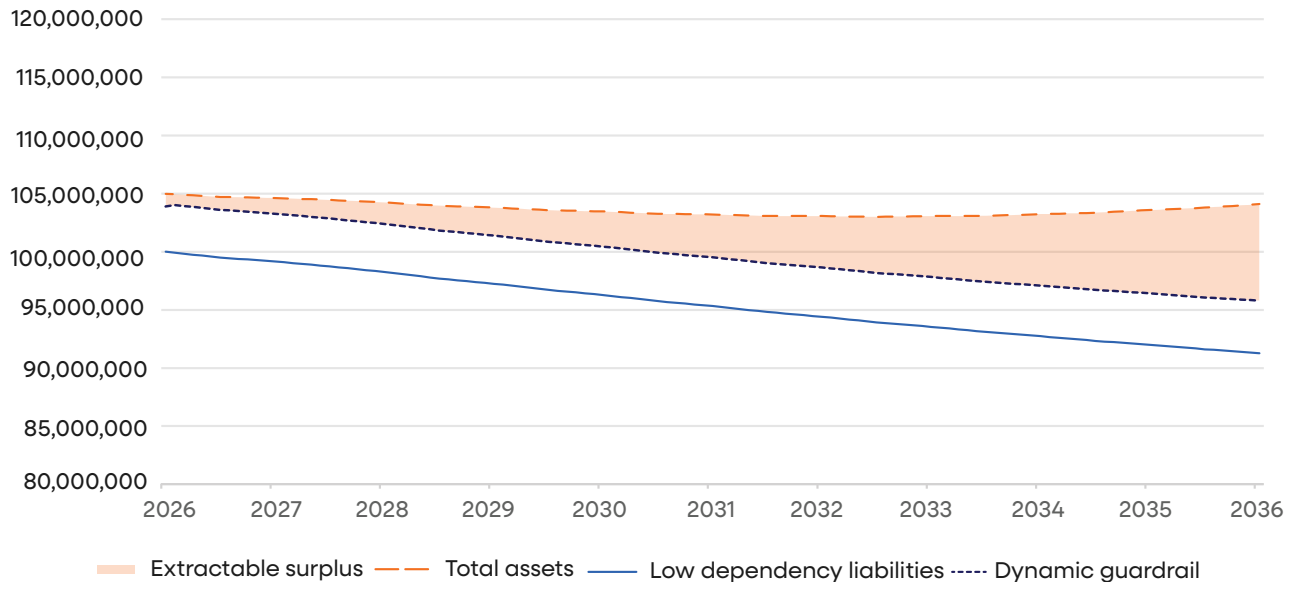
Source: Russell Investments. For illustrative purposes only.

2 Share and build

A fixed amount is released, subject to sufficient surplus remaining above the dynamic guardrail. For illustration, we assume annual distributions of **£500,000 for the £100 million scheme and £2.5 million for the £500 million scheme**, paid monthly. The remaining surplus continues to compound and may ultimately support further distributions or another endgame.

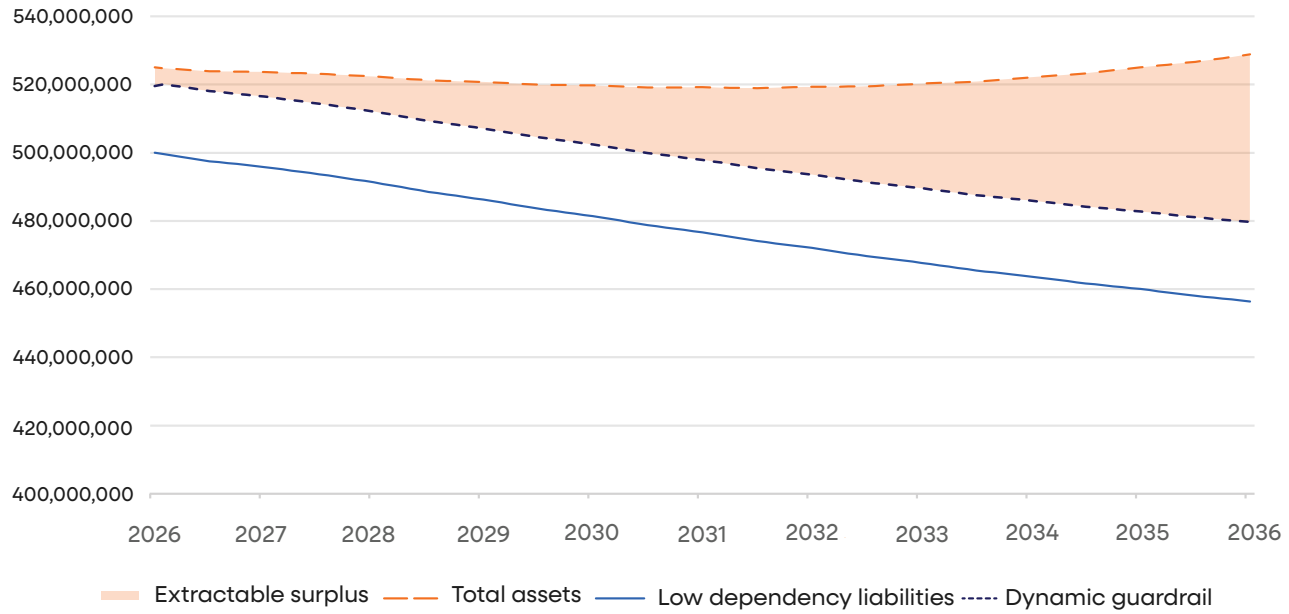
Importantly, distributions cannot be considered independently of the risk guardrail. Increasing the amount released eventually reduces the remaining surplus to the point where the guardrail becomes binding. At that point, further distributions would require surplus to rebuild or investment risk to reduce. For the illustrative £100 million scheme, the guardrail begins to constrain distributions at just over £1 million per annum.

£100 million scheme - share and build | Total surplus generated: £13m



Source: Russell Investments. For illustrative purposes only.

£500 million scheme - share and build | Total surplus generated: £70m



Source: Russell Investments. For illustrative purposes only.

The impact of surplus release is clear:

- Under Build, the £100 million and £500 million schemes generate approximately £16 million and £89 million of additional surplus respectively over ten years, excluding surplus available at the outset.
- Under Share and build, some of that value is realised during the journey, reducing the capital available to compound but still allowing meaningful surplus to build (£13 million and £70 million respectively).

The illustrations demonstrate the trade-off between value today, value tomorrow and resilience throughout the journey. The dynamic guardrail provides the discipline around that trade off: distributions can increase only while sufficient surplus remains after allowing for the investment risk retained within the portfolio.

> Within FLEX, journey planning brings together long-term outcomes with execution and governance.

Trustees and sponsors establish the objectives and sharing policy, while the investment framework provides the discipline and implementation required to manage the strategy as funding and surplus evolve.

Keeping the journey under review

A ten-year illustration should not imply that running on remains appropriate for ten years regardless of circumstances. The economics and strategic rationale for running on should be reviewed at least annually as the scheme matures, assets reduce and alternative endgames evolve.

As a scheme becomes increasingly pensioner dominated, the gap between low dependency liabilities and buyout pricing may narrow materially. Based on current market pricing, for a significantly mature scheme the two could be relatively close. At the same time, fixed running costs become more significant relative to a declining asset base. There may therefore come a point where the additional value from continuing to run on no longer justifies the costs and risks involved, particularly where an insurance transaction has become affordable.

Journey planning should therefore include regular checkpoints to assess whether running on continues to generate meaningful net value or whether another endgame has become more attractive.

> A successful run on strategy should know not only how to continue, but when it may be appropriate to change course.

Maintaining resilience when circumstances change

The illustrations above focus on how surplus may develop and be released over time, but a successful run on strategy also needs to remain resilient when outcomes are less favourable. The dynamic guardrail provides the first line of protection, with the VaR buffer designed to absorb a significant investment shock while seeking to maintain full funding on the low dependency basis.

Importantly, the guardrail also means retaining assets above the low dependency requirement. Depending on prevailing insurer pricing, this additional buffer may itself be sufficient to support an immediate insurance transaction. Where it is not, we believe the strategy should retain a credible pathway towards buyout within approximately one valuation cycle following a modelled downside event, should trustees and sponsors decide that running on is no longer the preferred route.

This does not mean buyout remains the objective throughout the journey. Rather, it provides a practical test of flexibility. Taking additional investment risk today should not unnecessarily restrict the scheme's endgame choices tomorrow.



What makes a successful run on strategy

Running on should not be judged only by how much surplus a scheme generates. Success is about **creating meaningful value while protecting member security and retaining the ability to change course.**

As we have set out in this paper, that requires more than selecting a higher return target. The economics need to justify running on, the purpose of surplus needs to be clear, and investment risk needs to be taken deliberately. Surplus release then needs to operate within appropriate guardrails, with the strategy regularly reassessed as the scheme evolves.

These principles come together through **FLEX**, our investment framework for schemes choosing to run on.

Funding resilience

The improved funding position is what creates the opportunity to run on in the first place. Taking additional investment risk should not unnecessarily put that progress at risk.

Russell Investments' approach combines liability hedging, total portfolio risk management and dynamic guardrails to manage risk as funding and surplus evolve. This means considering not only the return that can be generated, but the level of risk the scheme can support and the protection that should remain before surplus is released.

Long term outcomes

Run on will mean different things for different schemes. Some may seek to actively generate and release surplus, while others may simply maintain a resilient position as the scheme matures and future endgame opportunities develop.

The investment strategy should reflect that objective. As an OCIO and fiduciary manager, Russell Investments constructs portfolios around the total scheme outcome. Our open architecture approach allows us to select managers and investments from across the market, rather than being constrained by proprietary products or individual asset classes.

Execution and governance

A well-designed strategy only creates value if it can be implemented effectively. Running on requires ongoing management of liability hedging, liquidity, cash flows, rebalancing and potentially surplus release as the funding position changes. This places greater demands on governance, reporting and the ability to make timely investment decisions.

Russell Investments combines total portfolio oversight, implementation capability and delegated governance within a single investment framework. Rather than managing individual asset classes in isolation, we manage the portfolio against the scheme's overall objectives, coordinating investment risk, liquidity and implementation across the underlying investments.

Trustees retain control over the objectives, risk appetite and guardrails, while Russell Investments can implement investment decisions within agreed parameters. This provides clear accountability and the ability to respond as circumstances change, without requiring trustees to oversee every underlying investment decision.



Trustees and sponsors electing to delegate the day-to-day decision making for the execution of an investment strategy should be mindful of selecting a manager who demonstrates thought leadership and an established track record of supporting schemes in achieving their long-term objectives. Remaining informed of the growing choices available is essential to good governance and successful member outcomes.

Matthew Course, IC Select

Exit optionality

Running on should not mean running on indefinitely. As schemes mature, assets reduce, costs become more significant and insurer pricing evolves, the relative attractiveness of different endgames will change.

The strategy should therefore retain sufficient liquidity and flexibility to reduce risk or pivot towards another endgame where appropriate. This applies both as part of the regular review of the strategy and following adverse markets. Taking investment risk today should not unnecessarily restrict the choices available tomorrow.

Why FLEX?

Successful run on requires more than an attractive expected return. It requires:

- **Risk management** to protect the progress already made
- **Investment breadth** to generate meaningful value
- **Implementation and governance** to deliver the strategy as circumstances change
- **Flexibility** to retain future endgame options

FLEX brings these capabilities together within a single investment proposition. Our experience as an OCIO and fiduciary manager combines total portfolio construction, open architecture manager selection, risk and liability management, implementation and delegated governance to manage the assets throughout the run on journey.

The objective is not simply to generate more surplus. It is to help trustees create meaningful value from running on while protecting member security and preserving the flexibility to change course.

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Where to next?



To discuss how we can partner with your business, contact us. Find out more, visit **russellinvestments.com**

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On July 2, 2026, Russell Investments Group, Ltd. ("Russell Investments") entered into a definitive agreement and plan of merger (the "Transaction") pursuant to which Russell Investments will be acquired by a consortium led by B Capital Group Management, L.P. that includes California Public Employees Retirement System. The Transaction is expected to close by the end of Q1 2027, subject to the receipt of regulatory approvals and other customary closing conditions.

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