Mercer

The Pensions Regulator

Superfund capital requirements

15 October 2025

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welcome to brighter

Introduction

Mercer has been appointed by The Pensions Regulator (“TPR”) to provide asset liability modelling analysis to consider the following aspects regarding superfund capital requirements.

1. **Determine capital buffers against market risk.** These are set such that the Year 5 funding level is above 100% with a 99% likelihood. The capital buffers are to be determined on three discount rates: Gilts + 0.50%, Gilts + 0.75% and Gilts + 1.0%. No allowance is made for longevity risk.

2. **Illustrate expected future funding levels over a 20 year time horizon** based on these buffers. This set of projections includes a longevity risk buffer of 3% and allows for longevity risk based on Mercer’s longevity risk model.

3. **Calculate the probability of depletion under the Probability of Meeting Benefits (POMB) analysis over a 50 year time horizon.** This set of projections also includes longevity risk.

The analysis has been carried out using Mercer’s Global Capital Market Assumptions as at 30 June 2025. The projections allow for surplus capital to be extracted at the earliest opportunity permitted by current guidance, when the funding level exceeds 100% plus 1.33 x minimum buffer (calculated in 1 above).

This paper is divided into the following sections:

- Section 1 – Investment strategies
- Section 2 – Bulk annuity pricing
- Section 3 – Derivation of capital buffers
- Section 4 – Capital buffer adequacy: 20 year projections
- Section 5 – Probability of meeting benefits (POMB) analysis

Investment strategies

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Investment Strategies

Asset allocations

We have set out below the investment strategies we have modelled. Strategies A and C have similar levels of expected excess return. Strategy B has a higher level of expected excess return and a higher volatility. Strategy E follows a credit-based investment strategy, not dissimilar to that an insurer may adopt. Strategy F is similar in overall risk and return terms to B, with less infrastructure equity and more credit.

Asset bucket	Asset class	Liquidity	Strategy A	Strategy B	Strategy C	Strategy E	Strategy F
Equity	Global Listed		10%	3%	5%	-	6%
	Private		-	4%	-	-	4%
Infrastructure	Equity		-	20%	-	-	10%
	Renewables		-	2%	-	-	
Debt	Investment-grade credit		20%	-	20%	45%	15%
	Liquid multi-asset credit		15%	-	-	-	
	ARBS Investment grade		15%	-	-	-	
	Private credit		-	9%	10%	20%	10%
	Investment grade ABS		-	3%	10%	-	5%
	High yield ABS		-	2%	-	-	5%
	Listed global high yield and loans		-	3%	5%	-	
	Commercial real estate debt		-	-	5%	-	
	Infrastructure debt		-	-	5%	-	
	Structured credit		-	-	-	5%	
Property	Property		-	4%	-	-	5%
LDI	LDI		40%	50%	40%	30%	40%

Investment Strategies
Risk and return metrics

The risk and return metrics for the investment strategies set out on the previous page are shown below under **30 June 2025** capital market assumptions.

Return / risk metrics – 30.6.2025	Strategy A	Strategy B	Strategy C	Strategy E	Strategy F
Expected return (10 year median p.a.)	Gilts + 1.0%	Gilts + 1.8%	Gilts + 1.2%	Gilts + 1.4%	Gilts + 1.7%
Expected return (10 year median p.a.) [1]	Gilts + 1.2%	Gilts + 2.0%	Gilts + 1.4%	Gilts + 1.7%	Gilts + 2.0%
Absolute volatility (1 year) [1]	7.0%	7.3%	6.9%	6.8%	7.3%
Absolute volatility (1 year) [1,2]	7.4%	7.3%	7.2%	7.3%	7.4%
Volatility vs liabilities (1 year) [2]	2.7%	3.3%	2.6%	3.0%	3.5%
Volatility vs liabilities (1 year) [1,2]	2.9%	4.2%	3.1%	4.0%	4.1%
Interest rate hedge ratio [2]	100%	100%	100%	100%	100%
Inflation hedge ratio [2]	100%	100%	100%	100%	100%
Allocation by Liquidity (High / Medium / Low)	70 / 30 / 0	55 / 6 / 39	67 / 13 / 20	75 / 5 / 20	61 / 10 / 29

[1] From Year 11 to Year 20
[2] Relative to Gilts + 0.5% liabilities

Comparison to 2023 review

- The expected returns (relative to gilts) of Strategy A, B, C and E have fallen relative to those in our 31 December 2022 analysis. Strategy F was not modelled in our prior analysis.
- In terms of absolute volatility (1 year), all strategies have seen a significant decrease. Strategy B has witnessed the largest decrease, with absolute volatility falling from 11.4% in relation to the 31 December 23 analysis to 7.3% in the June 2025 analysis.
- Similarly, relative volatility vs liabilities has also decreased for all strategies. Strategy B saw a decrease from 6.7% to 3.3%. The decrease in volatility is more marked for equities and real assets than other asset classes.

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Bulk annuity pricing

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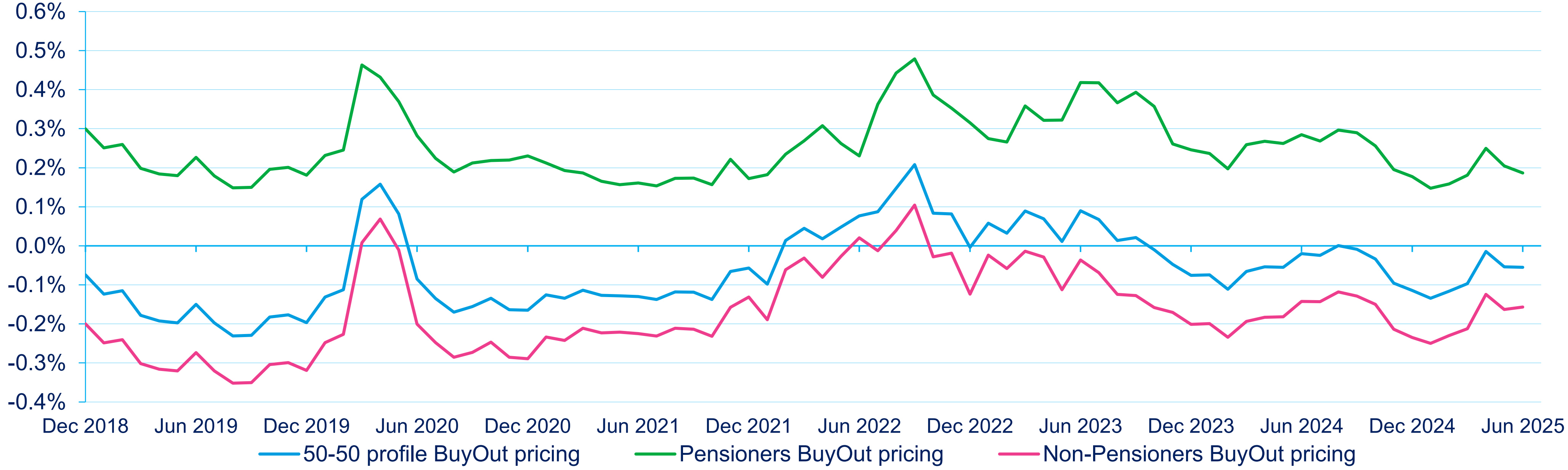
Buyout Pricing

Spread in bps	Max Spread	Min Spread	Average	Median
50-50 profile	0.21%	-0.23%	-0.06%	-0.07%
Pensioners	0.48%	0.15%	0.25%	0.23%
Non-pensioners	0.10%	-0.35%	-0.17%	-0.20%



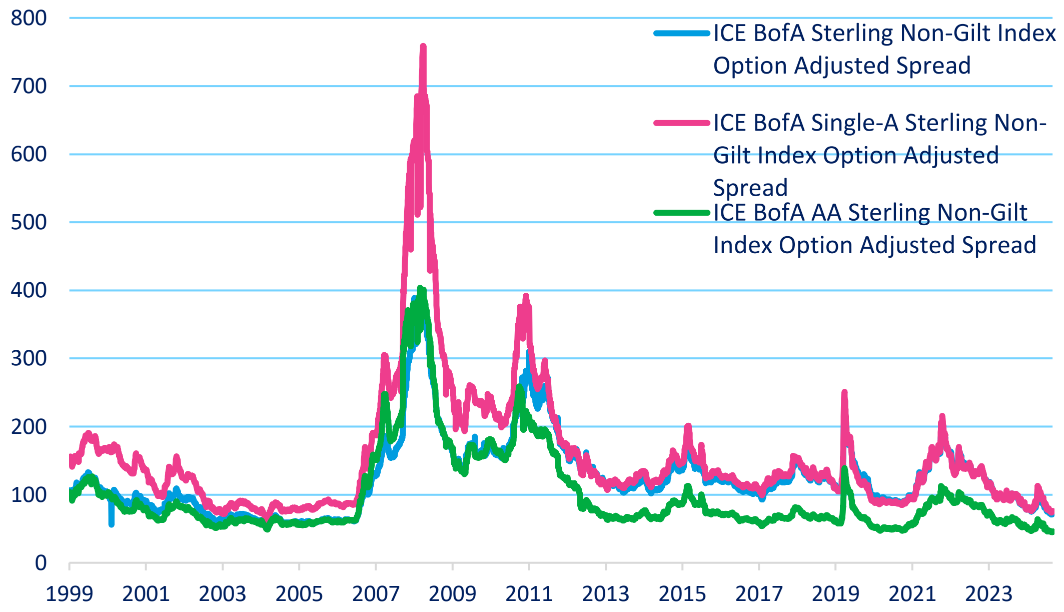
Note: based on Mercer bulk annuity pricing tracker until December 2019 and Cardano bulk annuity pricing tracker thereafter.

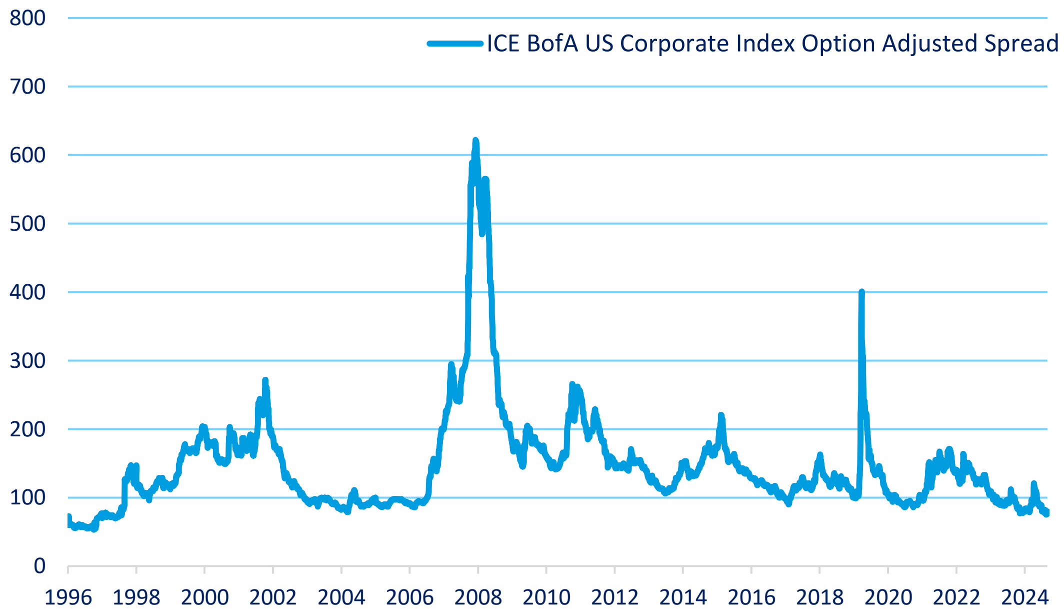
- Increases in volatility lead to a rise in Buy-out pricing. Spikes seen in 2020 are due to Covid, in 2022 due to the gilt crisis and in 2025 due to the USA tariffs announcements.

Credit Historical Ranges

- The table below shows a summary of the historical ranges of spreads to government bonds for GBP and USD Investment Grade Credit Indices since end-1999 and end-1996 respectively, and the US High Yield index over the period since end-1996.

Spread in bps	Max Spread	Min Spread	Average	Median	99% Percentile	95% Percentile	90% Percentile	75% Percentile	25% Percentile	10% Percentile	5% Percentile	1% Percentile
USD IG	622	53	146	129	554	256	214	167	98	88	76	57
USD HY	2147	241	522	456	1664	915	808	616	355	305	283	258
GBP IG	400	51	126	116	335	246	184	147	91	64	61	58
GBP IG A	759	63	157	129	616	332	258	167	98	83	78	73
GBP IG AA	404	45	99	73	370	217	182	107	62	56	52	48





Derivation of capital buffers

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Derivation of capital buffers

- The buffers shown below were obtained by setting the market risk buffer equal the minimum figure that would result in the Year 5 funding level being over 100% with a 99% probability.
- These buffers are derived using a projection approach, similar to that shown in the next section. However this calculation does not allow for longevity risk. A 3% longevity risk buffer is then added to the market risk buffer.
- The table below illustrates the market risk buffers:

Analysis as at 30 June 2025	Market Risk Buffers		
	Buffer G+0.50% / Funding Level Year 5 (99th percentile)	Buffer G+0.75% / Funding Level Year 5 (99th percentile)	Buffer G+1.00% / Funding Level Year 5 (99th percentile)
Strategy A	9.3% / 100.0%	10.5% / 100.0%	11.6% / 100.0%
Strategy B	8.6% / 100.0%	9.7% / 100.0%	10.7% / 100.1%
Strategy C	8.7% / 100.0%	9.6% / 100.0%	10.6% / 100.0%
Strategy E	11.1% / 100.0%	12.0% / 100.0%	13.0% / 100.1%
Strategy F	9.7% / 100.1%	10.7% / 100.0%	11.6% / 100.0%

Capital buffer adequacy: 20 year projections

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Strategy	A
Profile	50/50
Funding basis	Gilts plus fixed uplift
Longevity risk	Yes
Buffer (inc 3% longevity)	12.3% | 13.5% | 14.6%
Distributions (x buffer)	1.33x

Capital Buffers Adequacy – 30 June 2025

Investment Strategy A

- We have projected the **assets and liabilities** on **gilts + 0.50%, gilts + 0.75% and gilts + 1.00%** basis with the asset allocation of **Strategy A**.
- The table below sets out the 99th and 50th percentile funding levels, based on the initial buffers derived in the previous section, including a 3% longevity risk buffer. Profit taking is allowed for once capital buffers exceed 1.33x the initial buffer.

Funding Basis	Initial Buffer	Profit Taking	Percentile	1 year	2 years	3 years	4 years	5 years	6 years	7 years	8 years	9 years	10 years	15 years	20 years	Probability of full funding in 5 years	Probability of full funding in 10 years	Probability of full funding in 15 years
Gilts+0.50%	12.3%	116.4%	99th	102.5%	100.6%	99.9%	99.3%	99.3%	99.5%	100.3%	100.6%	100.7%	100.8%	103.2%	104.9%	98.7%	99.3%	99.5%
			50th	112.1%	112.2%	112.9%	113.6%	114.5%	115.1%	115.6%	116.0%	116.6%	116.7%	117.7%	118.2%			
Gilts+0.75%	13.5%	118.0%	99th	103.4%	101.2%	100.8%	99.5%	99.4%	99.7%	100.5%	100.5%	100.4%	100.3%	103.0%	104.2%	98.8%	99.1%	99.4%
			50th	113.0%	113.0%	113.6%	114.3%	115.0%	115.6%	116.4%	116.8%	117.4%	117.6%	118.8%	119.4%			
Gilts+1.00%	14.6%	119.4%	99th	104.2%	102.0%	101.3%	99.8%	99.8%	99.5%	100.4%	100.2%	99.7%	99.3%	101.6%	102.6%	98.9%	98.8%	99.3%
			50th	113.9%	113.7%	114.2%	114.7%	115.4%	115.9%	116.8%	117.3%	117.9%	118.3%	119.7%	120.5%			

Over a 5 year time horizon the 99th percentile positions are below 100% for the Gilts+1.00% discount rate as Mercer's longevity stresses at the 99th percentile exceed the 3% longevity risk buffer. Over time, funding levels tend to increase at both the 50th and 99th percentiles, allow for profit extraction.

Funding Level categorized as follows: < 97% = red; 97-100% =amber; ≥100% =green

Capital Buffers Adequacy – 30 June 2025

Investment Strategy B

Strategy	B
Profile	50/50
Funding basis	Gilts plus fixed uplift
Longevity risk	Yes
Buffer (inc 3% longevity)	11.6% | 12.7% | 13.7%
Distributions (x buffer)	1.33x

- We have projected the **assets and liabilities** on **gilts + 0.50%, gilts + 0.75% and gilts + 1.00%** basis with the asset allocation of **Strategy B**.
- The table below sets out the 99th and 50th percentile funding levels, based on the initial buffers derived in the previous section, including a 3% longevity risk buffer. Profit taking is allowed for once capital buffers exceed 1.33x the initial buffer.

Basis	Initial Buffer	Profit Taking	Percentile	1 year	2 years	3 years	4 years	5 years	6 years	7 years	8 years	9 years	10 years	15 years	20 years	Probability of full funding in 5 years	Probability of full funding in 10 years	Probability of full funding in 15 years
Gilts+0.50%	11.6%	115.4%	99th	101.5%	99.2%	99.8%	98.5%	99.0%	99.7%	99.8%	100.2%	100.1%	101.2%	100.9%	101.7%	98.5%	99.4%	99.2%
			50th	113.2%	114.0%	114.5%	115.0%	115.8%	116.2%	116.6%	116.8%	117.1%	117.3%	117.7%	118.1%			
Gilts+0.75%	12.7%	116.9%	99th	102.4%	99.8%	100.4%	99.3%	99.6%	100.2%	100.3%	100.7%	100.8%	101.5%	101.6%	102.4%	98.8%	99.5%	99.3%
			50th	114.0%	114.8%	115.4%	116.0%	116.8%	117.2%	117.6%	117.8%	118.1%	118.4%	118.9%	119.3%			
Gilts+1.00%	13.7%	118.2%	99th	103.0%	100.2%	101.0%	99.6%	99.8%	100.4%	101.1%	101.1%	101.3%	101.9%	102.0%	102.6%	98.9%	99.5%	99.3%
			50th	114.8%	115.6%	116.1%	116.7%	117.6%	118.1%	118.4%	118.7%	119.1%	119.4%	119.9%	120.4%			

Strategy B shows increased dispersion of outcomes relative to Strategy A, as expected, due to its higher return and volatility.

Funding Level categorized as follows: < 97% = red; 97-100% =amber; ≥100% =green

Strategy	C
Profile	50/50
Funding basis	Gilts plus fixed uplift
Longevity risk	Yes
Buffer (inc 3% longevity)	11.7% | 12.6% | 13.6%
Distributions (x buffer)	1.33x

Capital Buffers Adequacy – 30 June 2025

Investment Strategy C

- We have projected the **assets and liabilities** on **gilts + 0.50%, gilts + 0.75% and gilts + 1.00%** basis with the asset allocation of **Strategy C**.
- The table below sets out the 99th and 50th percentile funding levels, based on the initial buffers derived in the previous section, including a 3% longevity risk buffer. Profit taking is allowed for once capital buffers exceed 1.33x the initial buffer.

Basis	Initial Buffer	Profit Taking	Percentile	1 year	2 years	3 years	4 years	5 years	6 years	7 years	8 years	9 years	10 years	15 years	20 years	Probability of full funding in 5 years	Probability of full funding in 10 years	Probability of full funding in 15 years
Gilts+0.50%	11.7%	115.6%	99th	100.6%	99.4%	99.3%	99.4%	100.4%	100.8%	101.0%	102.1%	101.9%	102.7%	103.8%	104.4%	99.1%	99.7%	99.8%
			50th	111.8%	112.0%	112.9%	113.7%	114.8%	115.4%	115.9%	116.2%	116.6%	116.9%	117.5%	117.8%			
Gilts+0.75%	12.6%	116.8%	99th	101.1%	100.0%	99.5%	99.6%	100.4%	100.7%	101.1%	101.6%	101.9%	102.5%	104.1%	104.9%	99.1%	99.7%	99.8%
			50th	112.4%	112.5%	113.3%	114.1%	115.1%	115.8%	116.4%	116.8%	117.3%	117.6%	118.4%	118.7%			
Gilts+1.00%	13.6%	118.1%	99th	101.9%	100.7%	100.0%	99.9%	100.5%	100.8%	101.0%	101.4%	101.7%	102.1%	104.1%	105.3%	99.2%	99.6%	99.8%
			50th	113.2%	113.2%	113.9%	114.5%	115.6%	116.3%	117.0%	117.4%	118.0%	118.4%	119.2%	119.8%			

Strategy C shows lower dispersion of 99th percentile outcomes relative to Strategy A in most years, reflecting the lower equity and greater debt allocation. The 50th percentile outcomes are similar although this will depend on credit spreads at inception.

Funding Level categorized as follows: < 97% = red; 97-100% =amber; ≥100% =green

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Strategy	E
Profile	50/50
Funding basis	Gilts plus fixed uplift
Longevity risk	Yes
Buffer (inc 3% longevity)	14.1% | 15.0% | 16.0%
Distributions (x buffer)	1.33x

Capital Buffers Adequacy – 30 June 2025

Investment Strategy E

- We have projected the **assets and liabilities** on **gilts + 0.50%, gilts + 0.75% and gilts + 1.00%** basis with the asset allocation of **Strategy E**.
- The table below sets out the 99th and 50th percentile funding levels, based on the initial buffers derived in the previous section, including a 3% longevity risk buffer. Profit taking is allowed for once capital buffers exceed 1.33x the initial buffer.

Basis	Initial Buffer	Profit Taking	Percentile	1 year	2 years	3 years	4 years	5 years	6 years	7 years	8 years	9 years	10 years	15 years	20 years	Probability of full funding in 5 years	Probability of full funding in 10 years	Probability of full funding in 15 years
Gilts+0.50%	14.1%	118.8%	99th	101.0%	98.8%	98.8%	99.3%	100.6%	100.8%	100.8%	102.3%	102.2%	103.7%	104.1%	104.5%	99.2%	99.6%	99.8%
			50th	114.6%	115.1%	116.3%	117.4%	118.4%	119.2%	119.8%	120.2%	120.5%	120.9%	121.4%	121.8%			
Gilts+0.75%	15.0%	119.9%	99th	101.6%	99.1%	98.9%	99.4%	100.8%	100.7%	101.2%	102.5%	102.0%	103.7%	104.6%	104.8%	99.2%	99.7%	99.8%
			50th	115.2%	115.6%	116.7%	117.7%	118.9%	119.7%	120.4%	120.8%	121.2%	121.6%	122.3%	122.7%			
Gilts+1.00%	16.0%	121.3%	99th	102.3%	99.6%	99.4%	100.1%	100.8%	101.1%	101.7%	103.0%	102.3%	104.2%	104.9%	105.7%	99.3%	99.7%	99.8%
			50th	116.0%	116.2%	117.2%	118.2%	119.4%	120.3%	121.0%	121.6%	122.1%	122.5%	123.3%	123.8%			

Strategy E shows lower dispersion of 99th percentile outcomes relative to Strategy A, reflecting the lower equity and much greater credit allocation. The 50th percentile outcomes are higher although this will depend on credit spreads at inception.

Funding Level categorized as follows: < 97% = red; 97-100% =amber; ≥100% =green

Strategy	F
Profile	50/50
Funding basis	Gilts plus fixed uplift
Longevity risk	Yes
Buffer (inc 3% longevity)	12.7% | 13.7% | 14.6%
Distributions (x buffer)	1.33x

Capital Buffers Adequacy – 30 June 2025

Investment Strategy F

- We have projected the **assets and liabilities** on **gilts + 0.50%, gilts + 0.75% and gilts + 1.00%** basis with the asset allocation of **Strategy F**.
- The table below sets out the 99th and 50th percentile funding levels, based on the initial buffers derived in the previous section, including a 3% longevity risk buffer. Profit taking is allowed for once capital buffers exceed 1.33x the initial buffer.

Basis	Initial Buffer	Profit Taking	Percentile	1 year	2 years	3 years	4 years	5 years	6 years	7 years	8 years	9 years	10 years	15 years	20 years	Probability of full funding in 5 years	Probability of full funding in 10 years	Probability of full funding in 15 years
Gilts+0.50%	12.7%	116.9%	99th	100.0%	98.6%	98.8%	98.4%	99.2%	99.7%	100.3%	101.2%	102.0%	102.1%	102.7%	103.1%	98.7%	99.6%	99.6%
			50th	113.7%	114.3%	115.1%	116.0%	117.0%	117.6%	118.1%	118.3%	118.8%	119.1%	119.5%	119.9%			
Gilts+0.75%	13.7%	118.2%	99th	100.8%	99.1%	99.2%	98.8%	99.5%	100.1%	100.6%	101.6%	102.2%	102.7%	103.2%	103.8%	98.9%	99.6%	99.6%
			50th	114.4%	114.9%	115.8%	116.6%	117.7%	118.3%	118.9%	119.2%	119.7%	120.0%	120.4%	120.9%			
Gilts+1.00%	14.6%	119.4%	99th	101.3%	99.6%	99.5%	99.2%	99.9%	100.3%	100.8%	102.1%	102.4%	103.0%	103.4%	104.4%	98.9%	99.6%	99.7%
			50th	115.1%	115.5%	116.4%	117.2%	118.2%	118.9%	119.6%	119.9%	120.5%	120.9%	121.4%	122.0%			

Strategy F shows higher dispersion of 99th percentile outcomes relative to Strategy A, reflecting the greater illiquid asset allocation.

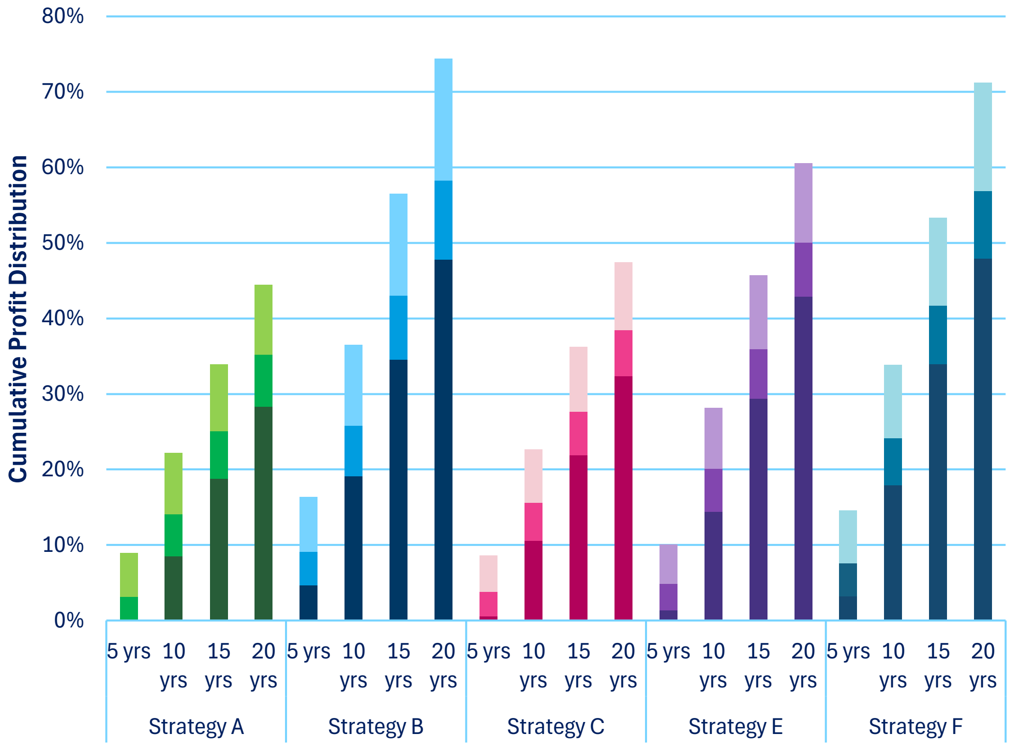
Funding Level categorized as follows: < 97% = red; 97-100% =amber; ≥100% =green

Strategy	A | B | C | E | F
Profile	50/50
Funding basis	G+0.50%
Buffer	12.3% | 11.6% | 11.7% | 14.1% | 12.7%
Distributions (x buffer)	1.33x

Profit Distribution – 30 June 2025

- We have projected the **Cumulative Profit Distributions** on the **gilts + 0.50%** basis with the asset allocation of all **Strategies**.
- The table below sets out the 50th, 25th and 5th percentile cumulative profit distributions (all in % of starting liability value), for each strategy (chart shows cumulative percentiles, with darker bucket being the 50th, the medium bucket being the 25th and the lighter bucket the 5th).

Basis	Strategy	Initial Buffer	Profit Taking	Percentile	5 years	10 years	15 years	20 years
Gilts+0.50%	A	12.3%	116.4%	50th	0.0%	8.5%	18.8%	28.3%
				25th	3.2%	14.0%	25.1%	35.2%
				5th	9.0%	22.2%	33.9%	44.4%
	B	11.6%	115.4%	50th	4.7%	19.1%	34.5%	47.8%
				25th	9.1%	25.8%	43.0%	58.3%
				5th	16.3%	36.5%	56.5%	74.4%
	C	11.7%	115.6%	50th	0.6%	10.6%	21.9%	32.3%
				25th	3.8%	15.6%	27.7%	38.5%
				5th	8.6%	22.7%	36.2%	47.4%
	E	14.1%	118.8%	50th	1.4%	14.4%	29.4%	42.9%
				25th	4.9%	20.1%	36.0%	50.1%
				5th	10.1%	28.2%	45.7%	60.6%
	F	12.7%	116.9%	50th	3.2%	17.9%	34.0%	47.9%
				25th	7.6%	24.1%	41.7%	56.9%
				5th	14.6%	33.8%	53.3%	71.2%



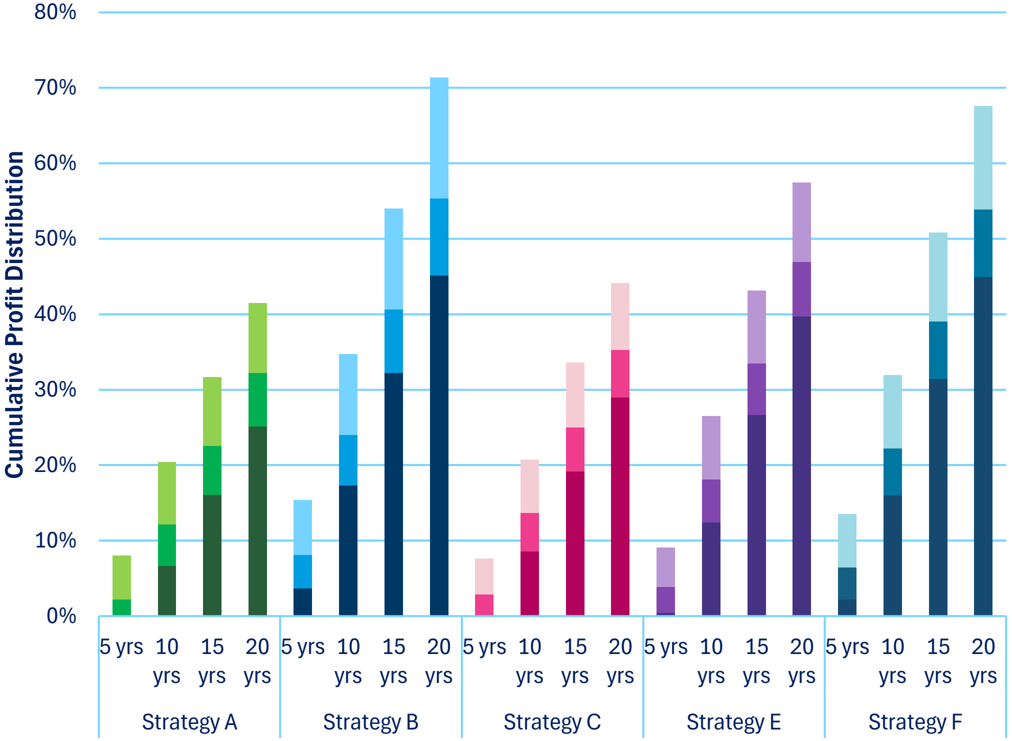
As expected, Strategies B and E generate greater amounts of surplus over time, reflecting their higher expected return.

Profit Distribution – 30 June 2025

Strategy	A | B | C | E | F
Profile	50/50
Funding basis	G+0.75%
Buffer	13.5% | 12.7% | 12.6% | 15.0% | 13.7%
Distributions (x buffer)	1.33x

- We have projected the **Cumulative Profit Distributions** on the **gilts + 0.75%** basis with the asset allocation of all **Strategies**.
- The table below sets out the 50th, 25th and 5th percentile cumulative profit distributions (all in % of starting liability value), for each strategy (chart shows cumulative percentiles, with darker bucket being the 50th, the medium bucket being the 25th and the lighter bucket the 5th).

Basis	Strategy	Initial Buffer	Profit Taking	Percentile	5 years	10 years	15 years	20 years
Gilts+0.75%	A	13.5%	118.0%	50th	0.0%	6.6%	16.1%	25.2%
				25th	2.2%	12.2%	22.5%	32.2%
				5th	8.0%	20.4%	31.7%	41.5%
	B	12.7%	116.9%	50th	3.7%	17.3%	32.2%	45.1%
				25th	8.1%	24.0%	40.7%	55.4%
				5th	15.4%	34.7%	54.0%	71.3%
	C	12.6%	116.8%	50th	0.0%	8.6%	19.2%	29.0%
				25th	2.9%	13.7%	25.0%	35.3%
				5th	7.6%	20.7%	33.6%	44.1%
	E	15.0%	119.9%	50th	0.4%	12.4%	26.7%	39.7%
				25th	3.9%	18.1%	33.5%	46.9%
				5th	9.1%	26.5%	43.1%	57.4%
	F	13.7%	118.2%	50th	2.3%	16.0%	31.4%	44.9%
				25th	6.5%	22.2%	39.0%	53.9%
				5th	13.5%	32.0%	50.8%	67.6%



Increasing the discount rate reduces the amount of profit distribution due to a higher hurdle rate of return, and lower initial capital.

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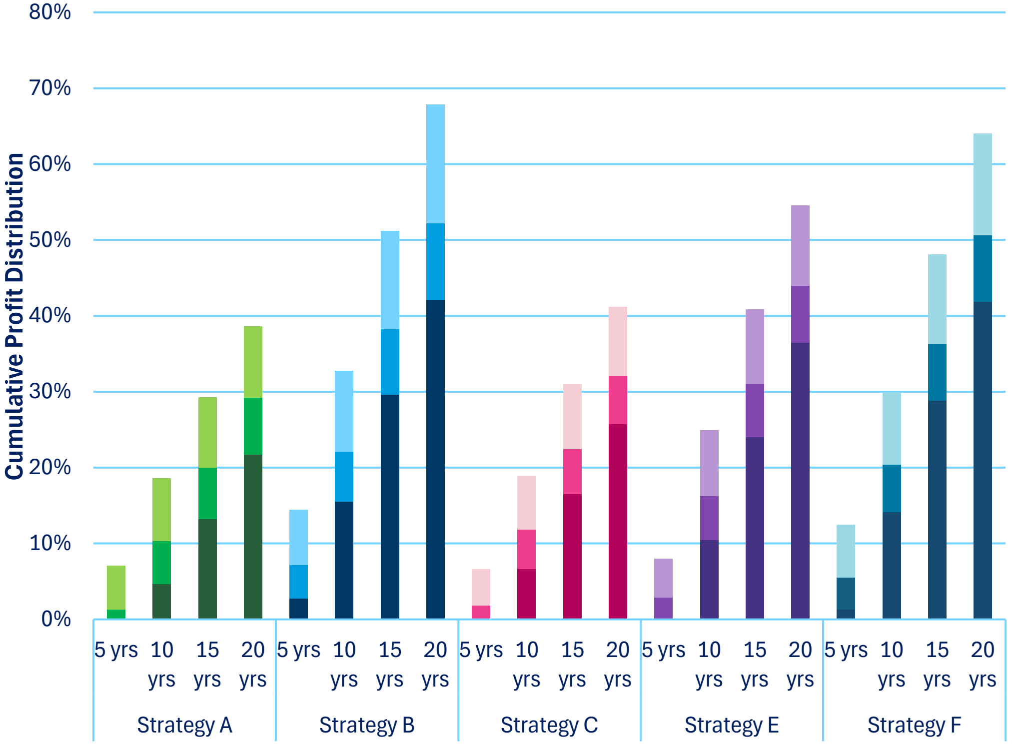
Profit Distribution – 30 June 2025

Strategy	A | B | C | E | F
Profile	50/50
Funding basis	G+1.00%
Buffer	14.6% | 13.7% | 13.6% | 16.0% | 14.6%
Distributions (x buffer)	1.33x

- We have projected the **Cumulative Profit Distributions** on the **gilts + 1.00%** basis with the asset allocation of all **Strategies**.
- The table below sets out the 50th, 25th and 5th percentile cumulative profit distributions (all in % of starting liability value), for each strategy (chart shows cumulative percentiles, with darker bucket being the 50th, the medium bucket being the 25th and the lighter bucket the 5th).

Basis	Strategy	Initial Buffer	Profit Taking	Percentile	5 years	10 years	15 years	20 years
Gilts+1.00%	A	14.6%	119.4%	50th	0.0%	4.7%	13.3%	21.7%
				25th	1.3%	10.3%	20.0%	29.2%
				5th	7.1%	18.6%	29.2%	38.6%
	B	13.7%	118.2%	50th	2.7%	15.5%	29.6%	42.1%
				25th	7.2%	22.1%	38.2%	52.2%
				5th	14.5%	32.7%	51.2%	67.9%
	C	13.6%	118.1%	50th	0.0%	6.7%	16.5%	25.8%
				25th	1.9%	11.8%	22.5%	32.2%
				5th	6.6%	18.9%	31.0%	41.2%
	E	16.0%	121.3%	50th	0.0%	10.4%	24.0%	36.5%
				25th	2.9%	16.3%	31.0%	44.0%
				5th	8.0%	24.9%	40.8%	54.6%
	F	14.6%	119.4%	50th	1.3%	14.1%	28.9%	41.9%
				25th	5.5%	20.4%	36.3%	50.6%
				5th	12.5%	29.9%	48.1%	64.0%



Increasing the discount rate reduces the amount of profit distribution due to a higher hurdle rate of return, and lower initial capital

Probability of meeting benefits (POMB) analysis

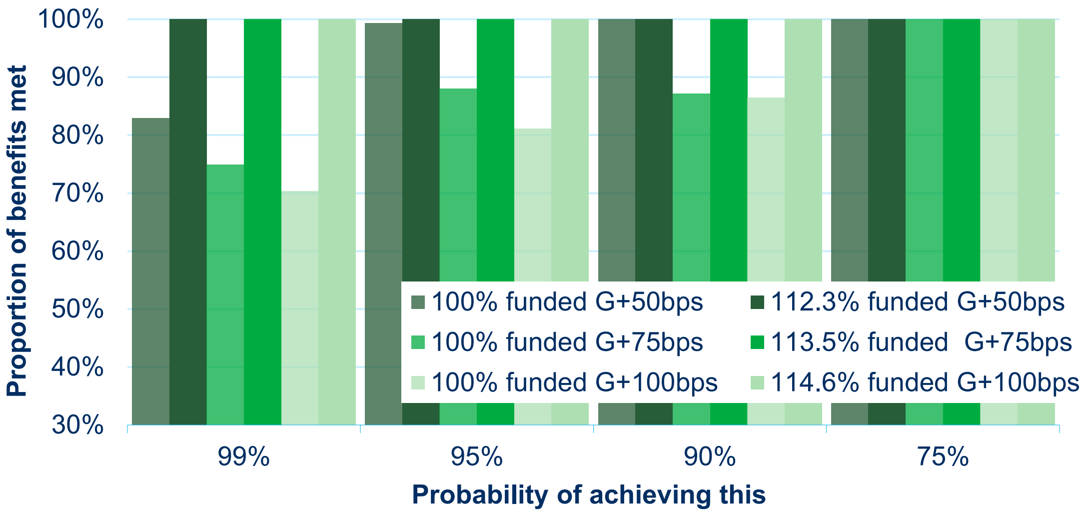
5

POMB Analysis – Strategy A

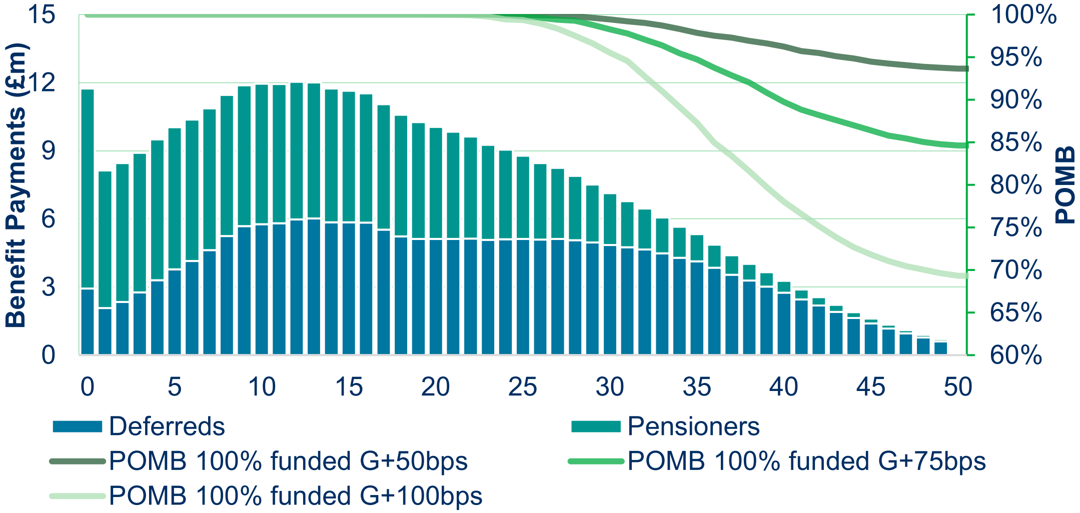
Scenario details

Liability Profile	50% Pensioner / 50% Deferred
Funding Basis (initial asset value)	Gilts plus fixed uplift
Investment Strategy	A
Profit Distribution Rule	1.33x
Longevity Risk modelled	Yes
Initial Funding Level	100% 100% **+ 12.3% buffer** 100% **+ 13.5% buffer** 100% **+ 14.6% buffer**

Commentary



Probability of meeting benefits (POMB)



Commentary

The chart on the bottom left shows the probability of having assets remaining at each time point under different levels of buffer.

The dark green line ultimately reaches, at year 50, **a POMB just over 93.65%** for a scenario where the scheme is **100% funded at start and a 1.33x profit distribution rule.**

The green line reaches, at year 50, **a POMB just over 84.63%** for a scenario where the scheme is **100% funded at start and a 1.33x profit distribution rule.**

The light green line reaches, at year 50, **a POMB just over 69.33%** for a scenario where the scheme is **100% funded at start and a 1.33x profit distribution rule.**

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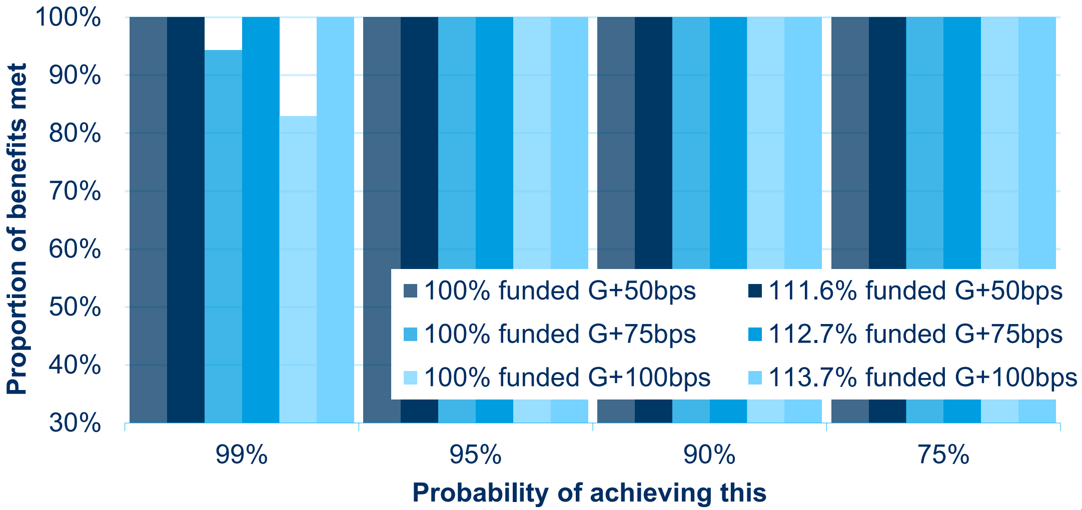
POMB Analysis – Strategy B

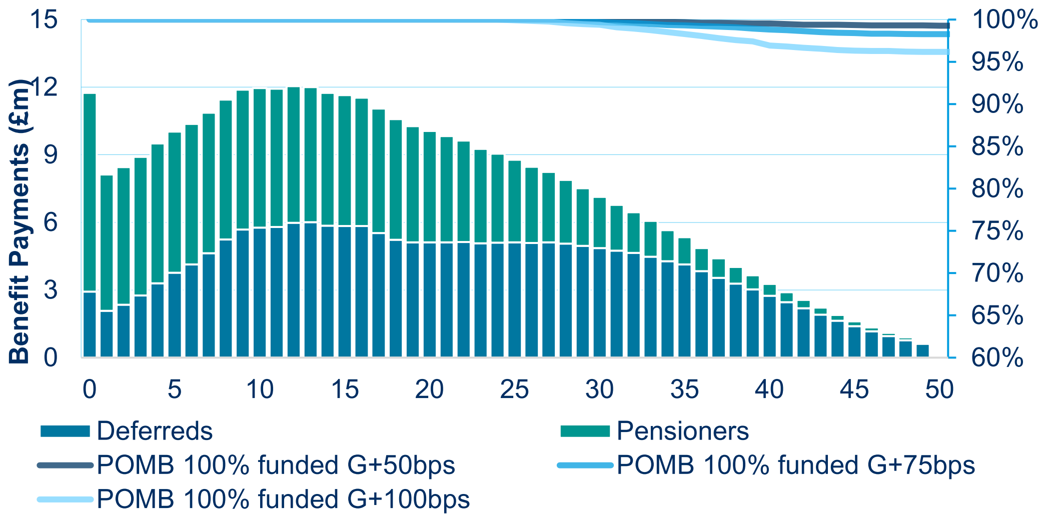
Scenario details

Liability Profile	50% Pensioner / 50% Deferred
Funding Basis (initial asset value)	Gilts plus fixed uplift
Investment Strategy	B
Profit Distribution Rule	1.33x
Longevity Risk modelled	Yes
Initial Funding Level	100% 100% **+ 11.6% buffer** 100% **+ 12.7% buffer** 100% **+ 13.7% buffer**

Commentary



Probability of meeting benefits (POMB)



Commentary

The chart on the bottom left shows the probability of having assets remaining at each time point under different levels of buffer.

The dark blue line ultimately reaches, at year 50, **a POMB just over 99.28%** for a scenario where the scheme is **100% funded at start and a 1.33x profit distribution rule**.

The blue line reaches, at year 50, **a POMB just over 98.28%** for a scenario where the scheme is **100% funded at start and a 1.33x profit distribution rule.**

The light blue line reaches, at year 50, **a POMB just over 96.18%** for a scenario where the scheme is **100% funded at start and a 1.33x profit distribution rule.**

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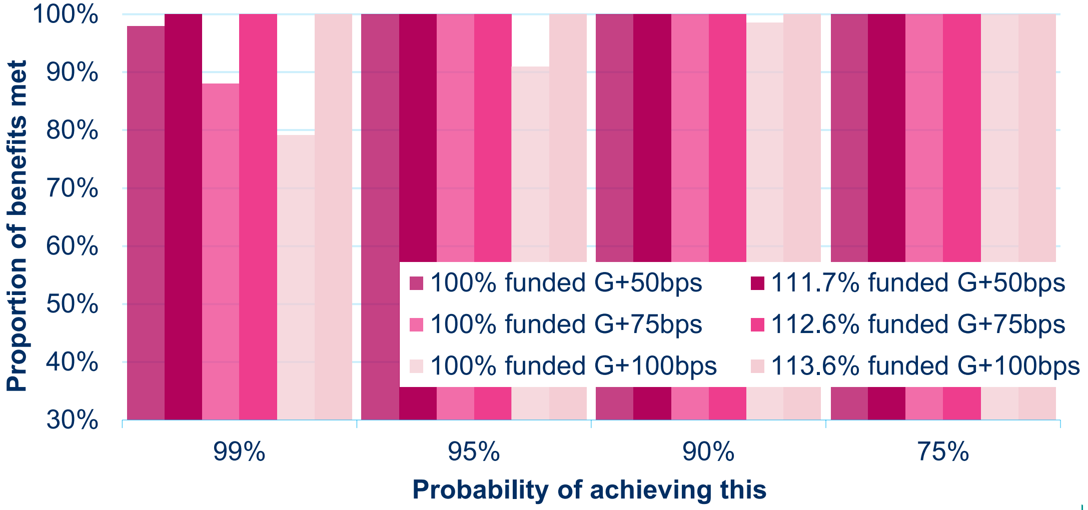
POMB Analysis – Strategy C

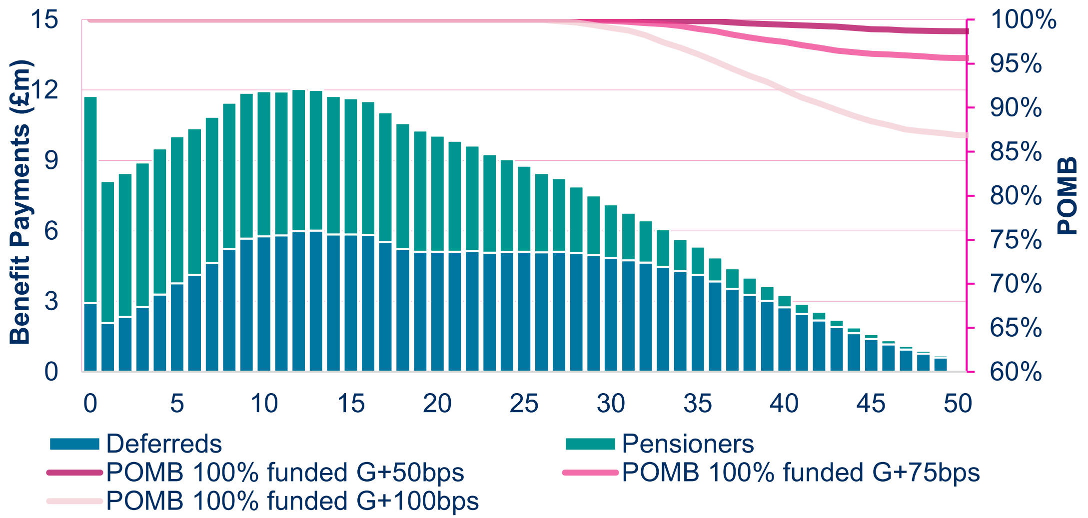
Scenario details

Liability Profile	50% Pensioner / 50% Deferred
Funding Basis (initial asset value)	Gilts plus fixed uplift
Investment Strategy	C
Profit Distribution Rule	1.33x
Longevity Risk modelled	Yes
Initial Funding Level	100% 100% **+ 11.7% buffer** 100% **+ 12.6% buffer** 100% **+ 13.6% buffer**

Commentary



Probability of meeting benefits (POMB)



Commentary

The chart on the bottom left shows the probability of having assets remaining at each time point under different levels of buffer.

The dark pink line ultimately reaches, at year 50, **a POMB just over 98.68%** for a scenario where the scheme ais 100% funded at start and a 1.33x profit distribution rule.

The pink line reaches, at year 50, **a POMB just over 95.63%** for a scenario where the scheme is **100% funded at start and a 1.33x profit distribution rule.**

The light pink line reaches, at year 50, **a POMB just over 86.88%** for a scenario where the scheme is **100% funded at start and a 1.33x profit distribution rule.**

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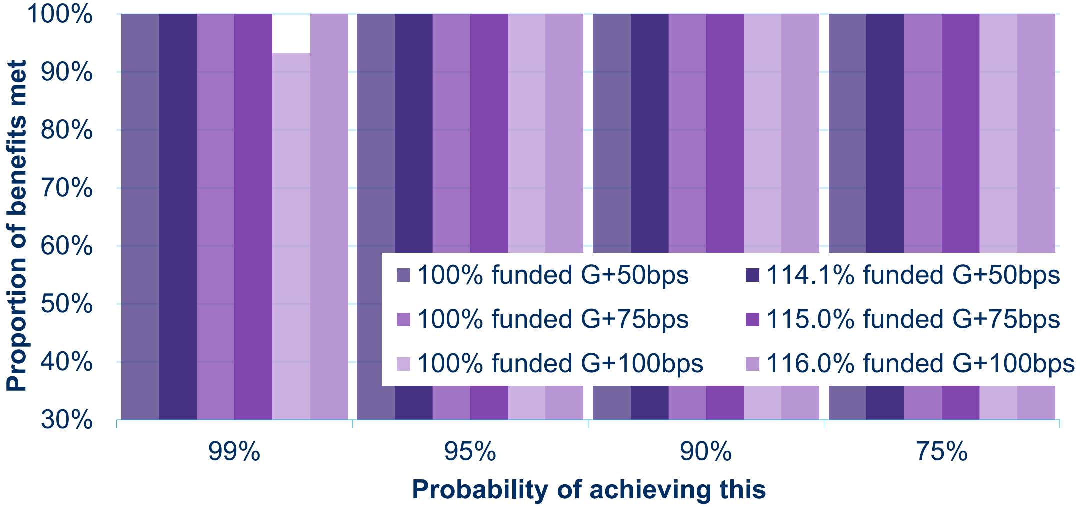
POMB Analysis – Strategy E

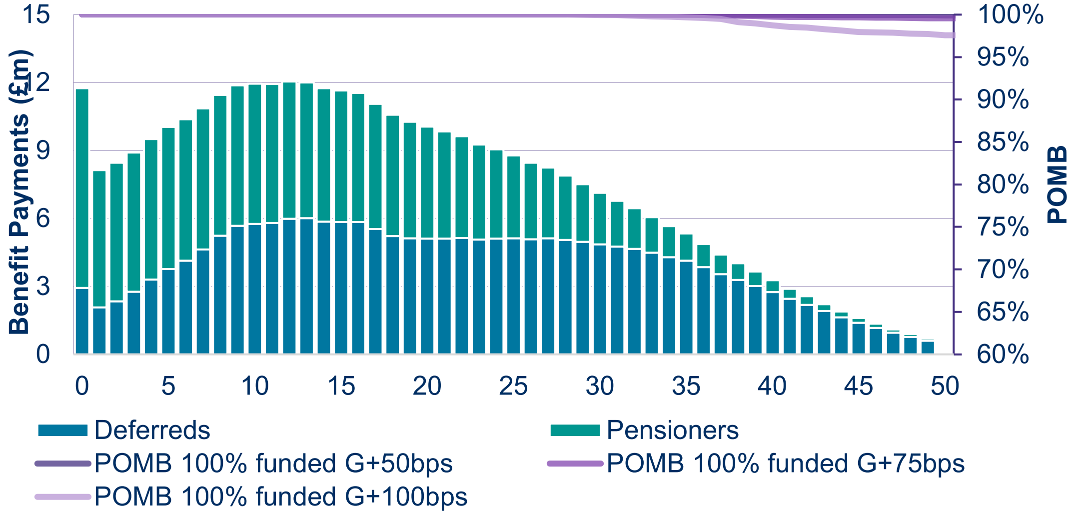
Scenario details

Liability Profile	50% Pensioner / 50% Deferred
Funding Basis (initial asset value)	Gilts plus fixed uplift
Investment Strategy	E
Profit Distribution Rule	1.33x
Longevity Risk modelled	Yes
Initial Funding Level	100% 100% **+ 14.1% buffer** 100% **+ 15.0% buffer** 100% **+ 16.0% buffer**

Commentary



Probability of meeting benefits (POMB)



Commentary

The chart on the bottom left shows the probability of having assets remaining at each time point under different levels of buffer.

The dark purple line ultimately reaches, at year 50, **a POMB just over 99.90%** for a scenario where the scheme is **100% funded at start and a 1.33x profit distribution rule.**

The purple line reaches, at year 50, **a POMB just over 99.55%** for a scenario where the scheme is **100% funded at start and a 1.33x profit distribution rule.**

The light purple line reaches, at year 50, **a POMB just over 97.58%** for a scenario where the scheme is **100% funded at start and a 1.33x profit distribution rule.**

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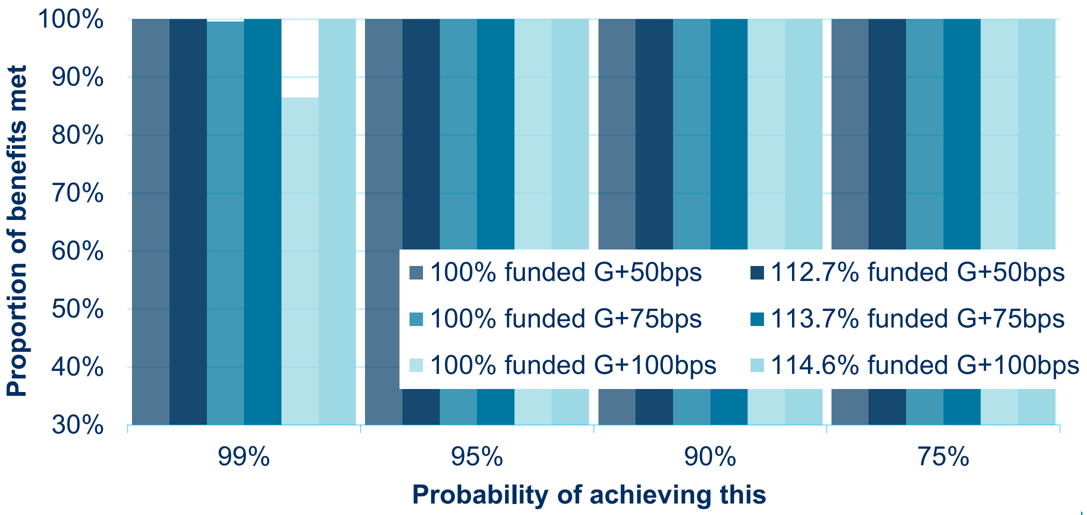
POMB Analysis – Strategy F

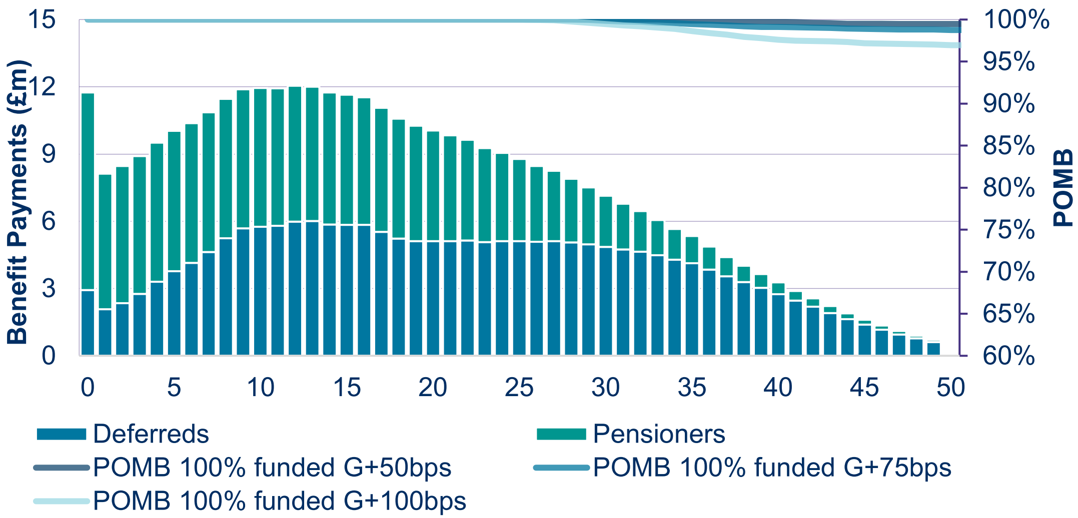
Scenario details

Liability Profile	50% Pensioner / 50% Deferred
Funding Basis (initial asset value)	Gilts plus fixed uplift
Investment Strategy	F
Profit Distribution Rule	1.33x
Longevity Risk modelled	Yes
Initial Funding Level	100% 100% **+ 12.7% buffer** 100% **+ 13.7% buffer** 100% **+ 14.6% buffer**

Commentary



Probability of meeting benefits (POMB)



Commentary

The chart on the bottom left shows the probability of having assets remaining at each time point under different levels of buffer.

The dark turquoise line ultimately reaches, at year 50, **a POMB just over 99.48%** for a scenario where the scheme is **100% funded at start and a 1.33x profit distribution rule**.

The turquoise line reaches, at year 50, **a POMB just over 98.75%** for a scenario where the scheme is **100% funded at start and a 1.33x profit distribution rule.**

The light turquoise line reaches, at year 50, **a POMB just over 96.95%** for a scenario where the scheme is **100% funded at start and a 1.33x profit distribution rule.**

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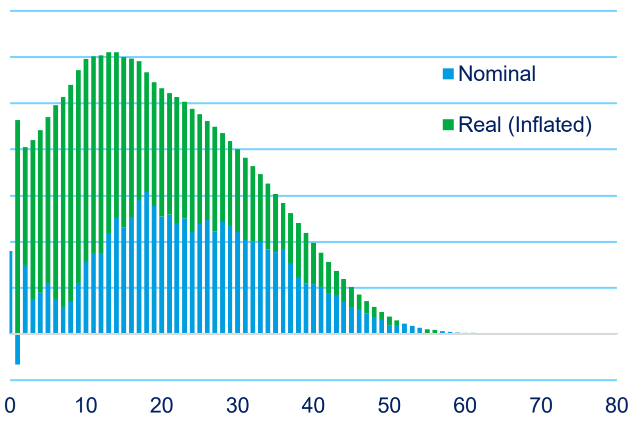
Appendix 1: Assumptions

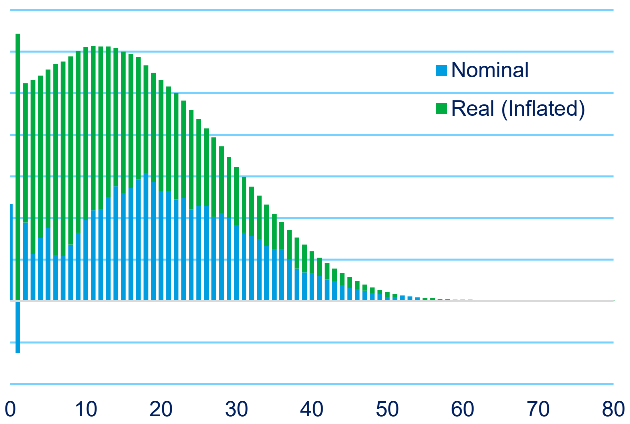
Cashflow Profiles – 30 June 2025

- The charts below illustrate the proposed cashflow profile used within the asset-liability modelling analysis, split by nominal and real cashflows. The pensioner proportions under the profiles are 50%, 80% and 20% (from left to right).
- The demographic assumptions underlying these profiles are set out in the table below.

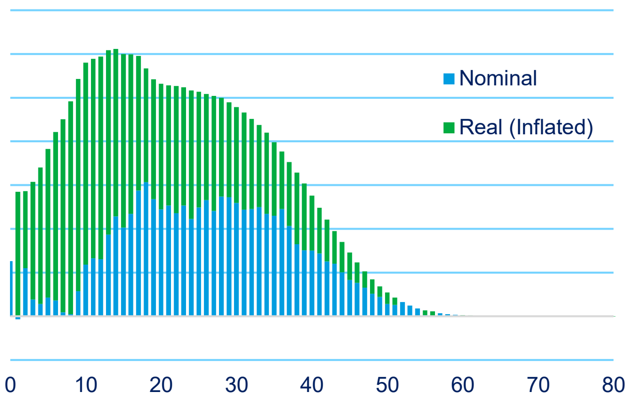
CASHFLOW PROFILE 1
50% PENSIONERS - 50% DEFERREDS



CASHFLOW PROFILE 2
80% PENSIONERS - 20% DEFERREDS



CASHFLOW PROFILE 3
20% PENSIONERS - 80% DEFERREDS



Assumptions	
Commutation	We have assumed that 20% of the total value being a lump sum is equivalent to c. 25% of a member’s pension being commuted (spouse’s pension isn’t commutable and this is estimated to be c. 20% of total value).
Proportion married	85%
Spouse’s fraction	50%
Expenses	We have assumed an allowance for expenses is capitalized into the liability value and expenses are proportional to benefit cashflow.

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Assumptions underlying liability cashflow profiles

- The table below shows the main assumptions that were used to construct the liability cashflow profiles.

Assumption	
Pre and post retirement discount rate	Gilts + 0.5% p.a.
Pension increases	Assumptions derived in line with best-estimate assumptions
Mortality	• Pensioners: 100% of S2PA, CMI2018 Core parameters, LTR 1.75% • Deferreds: 100% of S2PA, CMI2018 Core parameters, LTR 1.75%
RPI – CPI wedge	• None • CPI linked cashflows modelled as RPI cashflows
Mortality risk	• Not modelled
Mortality age rating	• 0 years
Mortality weighting	• 100% for males and females
Guarantee	• 5 years
RPI	• Assumption derived in line with best-estimate, with no IRP
Spouse’s age	• Females are assumed to be 3 years younger than males
Membership profile gender	• 60% of liabilities are associated with males and 40% with females

Liability durations – 30 June 2025

Cashflow Profile	Duration (years, G+0.5% basis)	Inflation Proportion
80% Pensioners 20% Deferreds	11.5	57.6%
50% Pensioners 50% Deferreds	12.9	59.2%
20% Pensioners 80% Deferreds	14.4	60.7%

Capital market assumptions as at 30 June 2025

- Our asset/liability and capital market modelling is driven by economic simulations generated on the basis of the following assumptions. These assumptions represent our best view based on historical and forward looking analysis and are combined with market conditions to calibrate our models.
- The 30 June 2025 assumption set has been used. The risk-return characteristics are summarised in the table below accordingly to the 4000 simulations CMS. The annualized returns are over a 10-year horizon and expressed relative to cash. Volatility is over a 1-year horizon and expressed in absolute terms. Returns are shown net of fees for private assets and gross of fees for others.

Assumption	Standard deviation (p.a.)	Mean excess return (p.a.)	Median excess return (p.a.)
Fixed interest gilts	10.6%	2.8%	2.7%
Index-linked gilts	5.7%	2.1%	1.7%
Sterling non-gilts	5.6%	2.0%	1.9%
Developed Global Equity (Hedged)	17.5%	3.1%	2.6%
Emerging Market Equity	20.2%	4.2%	3.5%
Conventional Property	9.7%	3.5%	3.1%
High Lease Value Property	6.9%	3.4%	3.0%
Hedge Funds (Standard)	7.3%	2.7%	2.6%
High Yield Debt (Hedged)	6.9%	2.2%	2.1%
Emerging Market Debt (LC)	6.8%	4.0%	3.7%
Emerging Market Debt (HC)	9.6%	3.1%	2.7%
Infrastructure Unlisted Equity	7.5%	3.6%	3.4%
Junior Private Debt	10.5%	4.9%	5.0%
Senior Private Debt	6.7%	3.1%	3.1%
Private Equity	21.1%	5.5%	4.8%
Multi Asset Credit	5.9%	2.5%	2.4%
Absolute Return Fixed Income	4.6%	1.7%	1.6%

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