

The FSS Pension Scheme

Statement of Investment Principles – October 2023

1. Introduction

The Trustee of the FSS Pension Scheme (**the “Scheme”**) has drawn up this Statement of Investment Principles (**the “SIP”**) to comply with the requirements of the Pensions Act 1995 (**“the Act”**) and the Occupational Pension Schemes (Investment) Regulations 2005, as amended from time to time.

The SIP has been prepared after obtaining written professional advice from Mercer (**the “Investment Advisor”**) which is regulated by the Financial Conduct Authority (**“FCA”**). The Trustee has consulted with the Home Office who represent Forensic Archive Ltd, which is a Government-owned Company (**the “Principal Employer”**). The Principal Employer has no objections to the contents of this Statement.

The Scheme’s investment arrangements are based on the principles set out in this SIP and have due regard to the Funding Guarantee made by the Home Office in respect of the Scheme, the key features of which are as follows:

- a) Whilst the Scheme is ongoing, the Home Office will pay the required employer contributions (as agreed with the Trustee) into the Scheme. However, the level of these contributions is constrained by legislation (currently there is a statutory limit of £1.75m p.a. in relation to deficit contribution), and the Trustee has agreed to have regard to this when setting the funding and investment strategies.
- b) If the Scheme is wound-up for any reason, the Home Office will pay such monies into the Scheme as are required to enable members’ benefits to be bought out in full with an insurance company. Note that in this scenario the constraint on contributions referred to above will not apply.
- c) There are certain restrictions on the investments the Scheme Trustee can make to avoid investing directly in unethical investments, as defined in the Memorandum of Understanding in the Funding Guarantee. Further detail is included in Section 5 of this document.

To summarise, the Funding Guarantee is intended to ensure that Scheme members will receive their full pension benefits earned up to their date of leaving the Company, either from the Scheme itself or (potentially, in due course) an insurance company.

Further details of the Scheme’s investment arrangements can be found in the Investment Implementation Policy Document (**“IIPD”**), which is available to members on request.

The Scheme is governed by its Trust Deed and Rules which sets out all of the benefits in detail and specifies the Trustee’s investment powers. The investment powers do not conflict with this Statement.

The Trustee does not expect to revise this SIP frequently because it covers broad principles rather than their implementation. The Trustee will review it at least once every

three years and without delay upon a material change to the Scheme or the Principal Employer.

2. **Decision-Making Structure**

Overall investment policy falls into two parts:

- a) The *strategic management* of the assets is fundamentally the responsibility of the Trustee acting on expert advice and is driven by the investment objectives as set out below. Details are set out in Section 3.
- b) The *implementation* of the investment policy is the day to day management of the assets which is largely delegated to the Trustee's selected investment managers ("**the Managers**"). Details are outlined in Section 4 with full details in the IIPD.

3. **Strategic Management**

3.1 ***Investment Objectives***

To guide them in their strategic management of the assets and control of the various risks to which the Scheme is exposed, the Trustee has considered their objectives and adopted the following:

- The Trustee's primary investment objective is to invest the Scheme's assets in such a manner that members' benefit entitlements can be paid as and when they fall due.
- Over the shorter term, the objective is to achieve the performance objectives outlined in the IIPD.
- The Trustee pays due regard to the interests of the Principal Employer on the size and incidence of their contribution payments.

The Trustee has the ability to monitor the ongoing funding position on a daily basis and undertakes a dynamic approach to monitoring and reviewing the investment strategy to ensure as far as possible it continues to meet the Trustee's objectives. See section 3.4 for further details on future de-risking opportunities.

3.2 ***Investment Return***

The Trustee determines the primary allocation of assets between different asset classes and the composition of assets within each class.

The Trustee recognises the need for investment return in order to deliver the above objectives. The Trustee is therefore prepared to accept some risk in pursuit of this investment return in a controlled manner by investing in equities and other return seeking asset classes, and by using active fund managers for certain asset classes. Over the long term, the investment strategy is expected to provide a return above that assumed in the Scheme Actuary's Technical Provisions basis, consistent with the Scheme's Recovery Plan.

3.3 ***Investment Risk***

This section sets out the risks in respect to the main Scheme assets, which the Trustee deems to be financially material over the anticipated lifetime of the Scheme.

The Trustee invests a proportion of assets in a portfolio of physical and leveraged gilt funds (with the ability to use swap funds if required), which aim to move approximately in line with the liabilities and hence reduce inflation and interest rate risks. The Trustee has agreed that the use of leverage is appropriate as part of the Scheme's liability matching solution to enable target hedge ratios (for interest rate and inflation exposure) to be achieved and maintained. The Trustee has not set a formal target with respect to the use of leverage but will monitor actual leverage levels over time.

The Trustee recognises that minimising all the interest rate and inflation risk in this manner would minimise the expected investment return relative to the liabilities and, other things being equal, increase the Principal Employers' expected contribution requirements. Hence the remaining assets are invested in higher risk/return generating asset classes.

The Trustee recognises that the use of leverage introduces collateral sufficiency risk in both the synthetic equity and liability hedging portfolios. For the liability hedging portfolio, this is the risk that gilt yields rise such that additional capital needs to be invested within the liability hedging funds in order to maintain the target level of liability hedging. For the synthetic equity portfolio, this is the risk that the tracked equity index falls such that additional capital needs to be invested within the synthetic equity fund to maintain the level of exposure; these may need to be provided at short notice. The Trustee has a process in place with the synthetic equity and liability hedging manager to manage this particular risk. In the scenario where there is a capital call in both portfolios at the same time, the Trustee has agreed that the liability hedging portfolio will take precedence over the synthetic equity portfolio in order to maintain the target liability hedging ratio. Collateral levels in the liability hedging portfolio are maintained in line with the Pension Regulator's guidance and the minimum market stress levels set by the investment manager.

The Scheme faces risk from dealings with counterparties, because they may be unable to pay amounts due to the Scheme as they fall due. The Scheme has exposure to counterparties in a number of areas including in respect of derivative positions in the liability hedging and synthetic equity funds. The management of this risk is delegated to the investment managers.

In order to meet its investment objectives within a level of contributions that the Principal Employer has agreed to make, the Trustee has decided to take some investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide, whilst maintaining a prudent approach to meeting the Scheme's liabilities.

Before deciding to take investment risk relative to the liabilities, the Trustee received advice from the Investment Advisor and Scheme Actuary, and held discussions with the Principal Employer with representatives from the Home Office. In particular, the Trustee considered carefully the following possible consequences:

- i. The assets might not achieve the excess return relative to the liabilities anticipated. This would result in deterioration in the Scheme's financial position and consequently higher contributions from the Principal Employer than are currently expected.

- ii. The relative value of the assets and liabilities will be more volatile than if investment risk had not been taken. This will increase the likelihood of there being a shortfall of assets relative to the liabilities in the event of discontinuance of the Scheme. This consequence is particularly serious if it coincides with the Principal Employer being unable to make good the shortfall.
- iii. This volatility in the relative value of assets and liabilities may also increase the volatility of the Principal Employer's contribution rate set at successive actuarial valuations, depending on the approach to funding adopted. However, the level of these contributions will be constrained by statutory limits ("the Supply and Appropriations Act").

The Trustee's willingness to take investment risk, and the degree of investment risk, is dependent on the continuing financial strength of the Principal Employer and their willingness to contribute appropriately to the Scheme. The financial strength of the Principal Employer and their perceived commitment to the Scheme is monitored and the Trustee will consider reducing investment risk relative to the liabilities should either of these deteriorate.

The degree of investment risk the Trustee is willing to take also depends on the financial health of the Scheme and its liability profile. The Trustee monitors these with a view to altering the investment objectives, risk tolerance and/or return target should there be a significant change in either.

The Trustee has considered various combinations of assets and investment management approaches that might minimise the required degree of risk for a level of return expectation consistent with the assumptions in successive actuarial valuations.

The Trustee also takes into account Environmental, Social and Governance ("ESG") risk, including climate change risk, in the selection, retention and realisation of the Scheme's investment managers. Section 5 of this Statement sets out the Trustee's responsible investment and corporate governance statement.

3.4 ***Future De-Risking Opportunities***

The Trustee, with advice from the Investment Advisor and Scheme Actuary, has agreed to look for opportunities over time to reduce the level of investment risk in the Scheme's assets, relative to its liabilities, as the funding position of the Scheme improves. This will involve gradually reducing the Scheme's allocation to return-generating assets (i.e. those that are not anticipated to move in line with the liabilities) and increasing the allocation to liability matching assets within the liability hedging portfolio.

3.5 **Investment Strategy**

The Trustee's long-term investment strategy is detailed in the table below.

Mandate	Target Strategic Allocation (%)
Return Generating Portfolio	55.2
Passive Equity	13.0
Synthetic Equity *	7.2 (18.0)
Fund of Hedge Funds	10.0
Property	10.0
Multi-Asset Credit ("MAC")	15.0
Defensive Portfolio	44.8
Liability Driven Investments ("LDI")	44.8
Total	100.0

*Target exposure of the synthetic equity is shown in brackets. 7.2% represents the Scheme's target allocation for the amount of invested assets in the synthetic equity fund; the actual economic exposure will be greater than this due to the use of leverage within the fund (c.18% of assets based on the fund's target leverage level) and will vary over time as the underlying leverage of the fund changes.

The investment strategy is reviewed regularly by the Trustee to ensure that it remains appropriate for meeting the objectives and expected return set out in 3.1 and 3.2, and for controlling the risks identified in 3.3.

4. **Day-to-Day Management of the Assets**

4.1 **Main Assets**

The Trustee invests the main assets of the Scheme in a Scheme specific benchmark via a mixture of pooled funds. The Trustee is satisfied that the spread of assets by type and the spread of individual securities within each type provides adequate diversification of investments for risk management purposes.

The Trustee monitors the continued appropriateness of the investment strategy on an ongoing basis with the help of their advisors. The strategy will be reviewed in depth in line with each triennial actuarial valuation, though if there is a significant change in the capital markets, the circumstances of the Scheme and/or the Principal Employer, or governing legislation between valuations, then an earlier review will be conducted.

The overall investment strategy and manager structure is summarised in the Scheme's IIPD. In addition, the Trustee's policy is to endeavour to secure the safety of the Scheme's assets from a custody perspective. The appointment and review of appropriate custodial arrangements is the responsibility of each pooled fund investment manager.

Investment Management Structure

4.2 *Managers*

The Trustee has signed and dated Investment Management (or equivalent) Agreements that set out the terms and conditions by and under which the respective portfolios will be managed and reported.

The Trustee is satisfied that the spread of assets by type and the Managers' policies on investing in individual securities within each type should provide adequate diversification of investments.

4.3 *Aligning Manager Appointments with Investment Strategy*

Investment managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class for which they are being selected.

The Trustee looks to its investment advisor for their forward looking assessment of a manager's ability to outperform over a full market cycle, for active managers, or track the relevant indexes, for passive ones. This view will be based on the advisor's assessment of the manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Scheme invests in. The advisor's manager research ratings assist with due diligence and questioning managers during presentations to the Trustee and are used in decisions around selection, retention and realisation of manager appointments.

If the investment objective for a particular manager's fund changes, the Trustee will review the fund appointment to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.

Some appointments are actively managed and the managers are incentivised through remuneration and performance targets (an appointment will be reviewed following periods of sustained underperformance). The Trustee will review the appropriateness of using actively managed funds as part of the wider monitoring of the Scheme's managers.

As the Trustee invests in pooled investment vehicles they accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy. With respect to the Liability Driven Investment portfolio with Legal & General Investment Management ("LGIM"), whilst the underlying investments are in pooled funds, the manager has been appointed to manage these pooled investments in line with a Scheme-specific liability hedge ratio target, which is based on the underlying liability profile of the Scheme. Restrictions are set out in the portfolio guidelines in order to manage portfolio-specific risks (for example, restrictions on permitted pooled fund investments).

Investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. If the Trustee is dissatisfied, then they will look to replace the manager.

An investment manager's appointment may also be terminated if the Trustee's strategic investment objectives change.

Further details are given in Schedule A of the Scheme's IIPD.

4.4 ***Additional Voluntary Contributions ("AVCs")***

The Trustee has selected a range of funds suitable for AVC investments, as set out in Schedule B of the IIPD. The range of funds is reviewed and, if appropriate, amended from time to time in line with the methodology and criterion described in section 4.3 and 4.6 of this document.

Members have the option to invest in either the three funds or the Lifestyle option.

- The Global Equity, Pre-Retirement and Cash Funds are managed on a passive basis.
- A Lifestyle option invests members' contributions in the Global Equity Fund, switching to the Pre-Retirement Fund and Cash Fund nearing to retirement. The Lifestyle switching commences five years before retirement.

In arriving at the range of AVC fund options, the Trustee has considered the following financially material risks:

Type of Risk	Risk	Description	How is the risk monitored and managed?
Market risks	Inflation risk	The risk that returns over the members' working lives do not keep pace with inflation.	The Trustee monitors performance of funds on a regular basis.
	Currency risk	The risk that fluctuations in foreign exchange rates will cause the value of overseas investments to fluctuate.	The Trustee makes available a range of funds, across various asset classes, with the majority expected to keep pace with inflation.
	Credit risk	The risk that the issuer of a financial asset, such as a bond, fails to make the contractual payments due.	Members are able to set their own investment allocations, in line with their risk tolerances.

Equity and other price risk	The risk that market movements leads to a substantial reduction in the value of a member's savings.	The strategy for the default investment option is set with the intention of diversifying these risks to reach a level of risk deemed appropriate. This is set with advice from the Scheme's Investment Advisor.
Liquidity risk	The risk that the AVC assets cannot be realised at short notice in line with member demand.	The AVC assets are invested in daily dealt and daily priced pooled funds.
Investment Manager risk	The risk that the appointed investment managers underperform the benchmark return, fail to carry out operational tasks, do not ensure safe-keeping of assets or breach agreed guidelines.	The Trustee monitors performance of funds on a regular basis. The Trustee regularly reviews the appropriateness of the level of the security of assets and ongoing monitoring of the performance of the investment managers.

4.5 ***Realisation of Investments***

In general, the investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments, subject to not exceeding the Trustee's powers as set out in the Trust Deed and Rules. However, the investment managers would be responsible for generating any cash required for benefits and other expenditure on the instruction of the Trustee.

4.6 ***Evaluating Investment Manager Performance***

The Trustee receives investment manager performance reports from the investment adviser on a quarterly basis, which present performance information over various time periods. The Trustee reviews the absolute performance, relative performance against a suitable index used as the benchmark, and against the manager's stated target performance (over the relevant time period) on a net of fees basis. The Trustee's focus is primarily on long term performance but short term performance is also reviewed. As noted above, the Trustee may review a manager's appointment if:

- There are sustained periods of underperformance;
- There is a change in the portfolio manager;
- There is a change in the underlying objectives of the investment fund or manager;
- There is a significant change to Mercer's rating of the manager.

If a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustee may ask the manager to review their fees – either the annual management charge or the performance related fee element.

Mercer is retained as investment advisor to assist the Trustee in fulfilling their responsibility for monitoring the investment managers.

4.7 *Portfolio Turnover Costs*

The Trustee does not currently actively monitor portfolio turnover costs across the whole portfolio, but investment manager performance is generally reported net of all fees and costs, including transaction costs, and therefore managers are incentivised in this way to keep portfolio turnover costs to the minimum required to meet or exceed their objectives.

The Trustee will continue to monitor industry improvements concerning the reporting of portfolio turnover costs.

In the future, the Trustee may ask investment managers to include portfolio turnover and turnover costs in their presentations and reports to the Trustee. This may be assessed by comparing portfolio turnover across the same asset class, on a year-for-year basis for the same manager fund, or relative to the manager's specified portfolio turnover range in the investment guidelines or prospectus (where available).

The Trustee does not currently actively monitor the portfolio turnover costs of the assets for members' Additional Voluntary Contributions.

4.8 *Manager Turnover*

The Trustee are long term investors and are not looking to change the investment arrangements on a frequent basis.

For open-ended funds in which the Scheme invests, there is no set duration for the manager appointments. The Trustee will retain an investment manager unless:

There is a strategic change to the overall strategy that no longer requires exposure to that asset class or manager;

The manager appointment has been reviewed and the Trustee have decided to terminate.

5. *Environmental, Social and Corporate Governance ("ESG"), Stewardship, and Climate Change Beliefs*

The Trustee believes that ESG factors have a material impact on investment risk and return outcomes (and so are considered to be financially material), and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

5.1 ESG, Stewardship, and Climate Change Policies

The assets of the Scheme are invested in pooled vehicles and the Trustee accepts that pooled investments will be governed by the individual policies of the investment manager. These policies are reviewed as part of the consideration of pooled investments. As such, the Trustee has given their investment manager full discretion in evaluating ESG factors, including climate change considerations, exercising voting rights and stewardship obligations attached to the Scheme's investments in accordance with their own corporate governance policies, and current best practice, including the UK Corporate Governance Code and the UK Stewardship Code.

The Trustee considers how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and monitoring existing investment managers. Managers are expected to provide a summary of their ESG and stewardship policies and to comment on these issues as part of any meeting with the manager. The Trustee will also consider the ESG ratings provided by the investment advisor in evaluating how each investment manager embeds ESG factors into its investment process. A change in ESG rating (or lack of ESG rating) does not mean that the investment manager will be removed or replaced automatically, however the Trustee will assess this on a case by case basis.

5.2 Stewardship – Engagement priorities and significant votes

The Trustee has agreed that its engagement priorities will focus on the following key themes:

- Climate change;
- Human rights; and
- Shareholder concerns.

In preparing their annual Engagement Policy Implementation Statement, the Trustee asks the investment managers for engagement examples which cover the Trustee's engagement priorities. For its vote reporting, the Trustee asks the equity investment managers for their significant votes covering the Trustee's engagement priority themes. From this information, the Trustee selects the most significant votes as those that are best aligned with its engagement priorities and based on the company weights in the total portfolio.

The Trustee has not set its own voting policy, however the Trustee will monitor the equity investment managers' voting policy annually when preparing the Scheme's Engagement Policy Implementation Statement.

5.3 Member Views

Non-financially material considerations, including member views, are not explicitly taken into account in the selection, retention and realisation of investments at the current time.

5.4 Investment Restrictions

The Memorandum of Understanding (“MoU”) of the Funding Guarantee made by the Home Office in respect of the Scheme states that the Scheme assets will not be invested directly in any entities engaged as one of their primary businesses in the following activities:

- Illegal activity (including activity banned by international agreement)
- Production of arms (primarily military based arms) ((but for the avoidance of doubt this does not present the Scheme from holding UK Government bonds or the sovereign debt of any other country)
- Production of asbestos
- Gambling
- Pornography
- Tobacco (and tobacco related products)

The Scheme assets will not be invested in any entities that clearly have either:

- Poor environmental records; or
- Unethical employment practices

For the avoidance of doubt, the Scheme assets are all held within pooled funds so do not need to be treated as invested directly when considering the above. However, if the pooled funds are considered to be materially overweight to any of the entities referred to above, relative to a broad market index, this will also be considered a violation of the MoU; this will be subject to assessment by a third party ethical investment service appointed by or at the instigation of the Guarantor, and unless the Trustee has been notified of that conclusion by the Guarantor.

6. Review of this Statement

The Trustee will monitor compliance with this SIP periodically. They will also review this SIP in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustee and the Principal Employer which they judge to have a bearing on the stated investment policy.

This review will occur no less frequently than every three years to coincide with the Actuarial Valuation or other actuarial advice. Any such review will again be based on written expert investment advice and the Principal Employer will be consulted.

The FSS Pension Trustees Limited as Trustee of the FSS Pension Scheme

October 2023