Statement of
investment principles

LondonWaste Pension Scheme November 2023

This is the Statement of Investment Principles (the "Statement") made by the Trustees of the LondonWaste Pension Scheme (the "Scheme") in accordance with the Pensions Act 1995 (as amended). The Statement was approved by the Trustees on November 2023 and supercedes previous statements. Further reviews of this Statement will be carried out periodically at least every three years and without delay after any significant changes in investment policy.

In preparing this Statement, the Trustees have consulted with the employer to the Scheme and has taken and considered written advice from Hymans Robertson LLP.

The Scheme is a defined benefit scheme which closed for future accrual on 1 January 2019.

Scheme objective

The primary objective of the Scheme is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. The Trustees' over-riding funding principles for the Scheme are to set the employer contribution at a level which is sufficient:

- to recover any shortfall in assets relative to the value placed on accrued liabilities over the longer term; and
- to ensure that there are always sufficient assets of the Scheme (at their realisable value) to meet 100% of benefits as they fall due for payment to members.

The value of liabilities is calculated on the basis agreed by the Trustees and the Scheme Actuary. The funding position was formally reviewed at the actuarial valuation on 31 December 2020 and will be formally reassessed at each triennial actuarial valuation, or more frequently as required by the Pensions Act 2004.

Investment strategy

The Trustees have translated their objectives into a suitable strategic asset allocation benchmark for the Scheme. The Trustees have reviewed, and considered advice on, the Scheme's asset allocation and have deemed it appropriate.

The investment strategy takes account of the nature of the Scheme's liabilities (in particular the maturity profile of the Scheme in terms of the relative proportions of liabilities in respect of pensioners and non-pensioners), together with the level of disclosed surplus or deficit (relative to the funding bases used) and the Trustees' views of the covenant of the principal employer.

The Trustees monitor asset allocation on a regular basis. It is intended that investment strategy will be reviewed formally as part of each actuarial valuation process and will be supplemented by interim reviews as deemed necessary. Written advice is received as required from professional advisers.

The Trustees monitor the performance of the Scheme's investments relative to agreed criteria on a regular basis. The Trustees have delegated all day-to-day investment decisions to an authorised investment manager.

Choosing investments

Given the size and nature of the Scheme, the Trustees have decided to invest on a pooled fund basis; any such investment is affected through a direct agreement with an investment manager and/or through an insurance contract. The investment manager appointed by the Trustees is authorised under the Financial Services and Markets Act 2000 to undertake investment business.

In as far as the framework within which the pooled funds are held allows, the terms of the mandate and the basis on which the manager is engaged is defined specifically for the Scheme. For the pooled funds in which the mandate is invested, the objectives of the funds and the policies of the investment manager will be evaluated by the Trustees to ensure that they are appropriate for the needs of the Scheme.

Remuneration for the mandate was determined at the inception of the mandate based on commercial considerations and typically set on ad valorem basis (which included a Scheme-specific discount). The Trustees periodically review the fees paid to the manager against industry standards.

The Trustees are satisfied that the pooled funds selected are consistent with the objectives of the Scheme, particularly in relation to diversification, risk, expected return and liquidity.The Trustees review the nature of Scheme's investments on a regular basis, with particular reference to suitability and diversification. The Trustees seek and consider written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Trustees is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The Trustee recognises the long-term nature of its liability profile and appoints its managers to invest in such a way that generates long term sustainable returns. The Trustee will carry out necessary due diligence on the underlying investment decision making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the Scheme objective.

For the type of open-ended investments held within the mandate, the Trustee engaged the manager on an ongoing basis with no pre-determined term of appointment. For such a mandate, the Trustee expects the minimum duration of the appointment will be three years, this being the period over which performance of the mandate can be appropriately evaluated against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy.

The Trustees monitor the manager's performance against its benchmark on a quarterly basis and over a longer-term time horizon of 3 years. The manager is expected to provide explanations for any significant deviations away from benchmark returns.

Kinds of investment to be held

The Trust Deed and Rules grants the Trustees wide powers of investment. The Scheme may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Scheme may also make use of contracts for differences and other derivatives (whether by direct investment or in pooled funds investing in these products) for the purpose of efficient portfolio management or to hedge specific risks. The Trustees consider all of these classes of investment to be suitable to the circumstances of the Scheme.

Balance between different kinds of investments

The Scheme's investment manager will hold a mix of investments which reflect their views relative to their respective benchmarks or return targets. Within each major market the manager will maintain a diversified portfolio of stocks.

Risk

The Scheme is exposed to a number of risks which pose a threat to the Scheme meeting its objectives. The principal risks affecting the Scheme are:

Funding risks

- Financial mismatch – The risk that Scheme assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics –The risk that longevity improves and other demographic factors change, increasing the cost of the Scheme benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in a shortfall in the assets required to meet the Scheme's liabilities.

The Trustees manage financial mismatch in a number of ways. First, the Trustees have invested in a range of pooled funds which are designed to change in value in a similar way to the liability in response to changes in interest rates and inflation. The Trustees monitor the asset allocation of the Scheme on an ongoing basis and assesses risk by monitoring the Scheme's asset allocation and investment returns relative to appropriate benchmarks. The Trustees also assess risk relative to liabilities by monitoring the value of the Scheme's assets relative to liabilities.

The Trustees keep mortality and other demographic assumptions, which could influence the cost of benefits, under review. These assumptions are considered formally at triennial valuations.

The Trustees seek to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise.

Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Scheme cannot meet its immediate liabilities because it has insufficient liquid assets.

- Currency risk - The risk that the currency of the Scheme's assets underperforms relative to Sterling (i.e. the currency of the liabilities).

- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

- Environmental, Social and Governance (ESG) risks – the extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.

- Climate risk - The extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy.

The Trustees manage asset risks as follows. The Trustees provide a practical constraint on Scheme investments deviating greatly from the intended approach by investing in a range of investment mandates each of which has a defined objective, performance benchmark (where appropriate) and manager process which, taken in aggregate, constrain risk within their expected parameters.

By investing across a range of assets, including quoted equities and bonds, the Trustees recognise the need for some access to liquidity in the short term.

The majority of the Scheme's assets are denominated in (or hedged into) sterling, which mitigates potential currency risk.

The Trustees do not expect the manager to take excess short-term risk and will regularly monitor the manager's performance against the benchmarks and objectives set on a short, medium and long terms basis.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Trustees seek professional advice.

- Custody risk - The risk of losing economic rights to Scheme assets, when held in custody or when being traded.

- Credit default - The possibility of default of a counterparty in meeting its obligations.

The Trustees monitor and manage risks in these areas through a process of regular scrutiny of its providers, and audit of the operations conducted for the Scheme, or has delegated such monitoring and management of risk to the appointed investment manager as appropriate (e.g. custody risk in relation to pooled funds).

Expected return on investments

The investment strategy aims to achieve a return on Scheme assets which taken in conjunction with contributions is sufficient over time to meet the Scheme's pension liabilities.

Realisation of investments

The majority of the Scheme's investments are invested in liquid markets and may be realised quickly if required.

Portfolio turnover

The Trustees have expectations of the level of turnover within the mandate which is determined at the inception of the mandate, based on the Trustees' knowledge of the manager, investment process and the nature of the portfolio. Whilst the Trustees expect performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustees expect managers to report on at least an annual basis on the underlying assets held within the portfolio and details of any transactions over the period. The Trustees will challenge their managers if there is a sudden change in portfolio turnover or if the level of turnover seems excessive.

The Trustees will request turnover costs incurred by the asset managers over the Scheme reporting year.

Consideration of financially material factors in investment arrangements

The Trustees recognise that the consideration of financially material factors, including Environmental, Social and Governance (ESG) factors, is relevant at different stages of the investment process. The strategic benchmark has been determined using appropriate economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors other than climate change.

Given the inherent uncertainty associated with climate change and relatively short investment horizon of the Scheme, the Trustees have not considered the risks of climate change in setting the strategic benchmark or implementing the strategy.

The Trustees expect the investment managers to take all financially material factors into account where relevant and the terms of the mandates permit.

- Where active funds are used, the Trustees recognise that the manager has freedom to exercise discretion as to the choice of assets held. The Trustees expect the manager to take into account all financially material factors in the selection of assets within their portfolios and to be able to demonstrate their approach when challenged.
- Where passive funds are used, the Trustees recognise that the choice of benchmark dictates the assets held by the investment manager and that the manager has limited freedom to take account of factors that may be deemed to be financially material. The Trustees accept that the role of the passive fund is to deliver returns in line with the market and believe this approach is in line with the basis on which their current strategy has been set.

Consideration of non-financially material factors in investment arrangements

Non-financially material factors are the views of members and beneficiaries including (but not limited to) their ethical views and their views in relation to social and environmental impact and present and future quality of life of the members and beneficiaries of the Scheme.

Given the objectives of the Scheme, the Trustees have not considered any non-financially material factors in the development and implementation of their investment strategy.

Stewardship

Voting and engagement

The Trustees do not engage directly but believes it appropriate for the investment manager to engage with key stakeholders which may include corporate management, regulators and governance bodies, relating to their investments in order to improve corporate behaviours, improve performance and mitigate financial risks.

Responsibility for investment decisions has been delegated to the investment manager which includes consideration of the capital structure of investments and the appropriateness of any investment made. Where the manager is responsible for investing in new issuances, the Trustees expect the manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

The Trustees separately consider any conflicts of interest arising in the management of the Scheme and its investments and ensures that the manager has an appropriate conflicts of interest policy in place. The manager is required to disclose any potential or actual conflict of interest in writing to the Trustees.

Monitoring

The Trustees aim to monitor the manager's engagement activity on an annual basis in conjunction with their investment advisers. Where the Trustees deem it appropriate, any issues of concern will be raised with the investment manager for further explanation. The Trustees and their investment advisers may also challenge the manager on the impact of any significant issues including, where appropriate, ESG issues that may affect the prospects for return from the assets.

Additional Voluntary Contributions (AVCs)

The Trustees give members the opportunity to invest in a range of vehicles at the members' discretion.

Signed on behalf of the Trustees of the LondonWaste Pension Scheme

Authorised Signatory

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Date

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Appendix – Manager Arrangements

As part of a review of investment strategy carried out in 2023, the Trustees agreed to continue to be invested with Schroder Investment Management Limited ("Schroder") and to switch to a 100% matching portfolio that includes corporate bonds.

The following table sets out the target allocations that Schroder will manage.

Asset	Target Allocation
LDI / Cash	70%
Corporate Bonds	30%