The University of Sheffield Pension Scheme

Statement of Investment Principles ("SIP")

1. Background

This Statement of Investment Principles ('the statement') sets out the principles governing decisions about investments for the University of Sheffield Pension Scheme ('the Scheme'). This statement has been prepared in accordance with the requirements of Section 35 and 36 of the Pensions Act 1995, as amended and The Occupational Pension Schemes (Investment) Regulations 2005. This statement also details the Trustee's compliance with the Myners Code of Best Practice.

In preparing this statement, the Trustee has consulted with the University and obtained and considered advice from Isio Group Limited ("Isio"), the Trustee's investment advisor, on the appropriateness of this statement. Isio is authorised and regulated by the Financial Services Authority for designated investment business.

The Trustee has delegated certain investment responsibilities to a Sub Committee. The Investment Sub-Committee ("PFISC") is an advisory body set up by the Trustee in accordance with the Scheme's trust deed and rules to assist the Trustee in the discharge of its investment responsibilities. The role of the PFISC is to monitor and engage with the Scheme's investment managers on behalf of the Trustee. The PFISC does not have any decision making powers and the Trustee retains all investment powers. Full details of the roles and responsibilities of the PFISC are detailed in its Terms of Reference and references in this SIP to the Trustee monitoring, reviewing or receiving investment advice should be read accordingly. Many of these responsibilities are in practice carried out by the PFISC on behalf of the Trustee.

In accordance with The Occupational Pension Schemes (Investment) Regulations 2005 the statement is reviewed:

- at least every three years; and
- without any delay after any significant change in investment policy.

2. Investment Objectives

The Trustee invests the assets of the Scheme with the aim of ensuring that all members' accrued benefits can be paid. The Scheme's funding target is specified in the Statement of Funding Principles. The Scheme's funding position will be reviewed on an ongoing basis to assess the position relative to the funding target and whether the investment arrangements remain appropriate to the Scheme's circumstances. The Scheme's funding target is specified in the Statement of Funding Principles.

The Final Salary Section's present investment objective is to achieve a return of approximately 4.0% per annum above the return on UK Government bonds, which is expected to move in a similar fashion to the value of the Scheme's liabilities. The Cash Balance Section's present investment objective is to achieve a return of around 1.9% per annum above the return on UK Government bonds.

3. Investment Strategy

The Scheme's investment strategy was derived from careful consideration of the nature and duration of the Scheme's liabilities including the length of time the Trustee considers is needed for the funding of benefits from the Scheme (the "appropriate time horizon"). The Trustee has also engaged with the University, as principal sponsor for the Scheme, to understand its objectives, attitudes to risk and financial position in order that it can incorporate these points when considering an appropriate investment strategy. The Trustee does not anticipate engaging with other investors.

When setting the investment strategy and selecting appropriate investments the Trustee has taken into account considerations which it deems to be financially material over the appropriate time horizon including but not limited to the risks of investing in the various asset classes, the implications of the strategy (under various scenarios), the overall income available to the Scheme under the strategy and the strength of the sponsor's covenant. The Trustee considered the merits of a range of asset classes, including various "alternative assets".

The Trustee recognises that the investment strategy is subject to risk, in particular the risk of a mismatch between the performance of the assets and the calculated value of the liabilities. This risk is monitored by regularly assessing the funding position and the characteristics of the assets and liabilities. The risk is managed by investing in assets which are expected to perform in excess of the liabilities over the appropriate time horizon, which the Trustee considers to be long term, and also by investing in a suitably diversified portfolio of assets with the aim of minimising (as far as possible) volatility relative to the liabilities. The assets of the Scheme consist predominantly of investments admitted to trading on regulated markets.

4. Investment Management Arrangements

In practice the Trustee invests the Scheme's assets in pooled investment vehicles, with the exception of the Scheme's asset-backed contribution ("ABC") facility.

The Trustee has appointed several investment managers to manage the assets of the Scheme as listed in the Investment Implementation Document ("IID"). The investment managers are regulated under the Financial Services and Markets Act 2000.

When selecting investment managers, the Trustee takes into account all matters which it considers will, over the appropriate time horizon, have an impact on risk-adjusted returns for the Scheme and which it therefore deems to be financially material. This may include but is not limited to environmental, social and governance (ESG) considerations and climate change. The investment managers' published policies on ESG, stewardship and engagement are taken into account as well as the performance targets on which the investment managers are evaluated.

All decisions about the day-to-day management of the underlying assets are delegated to the investment managers via a written agreement. The delegation includes decisions about:

- Selection, retention and realisation of underlying assets including taking into account all financially material considerations in making these decisions;
- The exercise of rights (including voting rights) attaching to the underlying assets;

- Undertaking engagement activities with underlying investee companies and other stakeholders, where appropriate.

The Trustee expects its investment managers, who have responsibility for undertaking engagement activity and exercising rights, to adhere to their published policies on such matters and to act in accordance with current best practice.

The Trustee will normally select investment managers who are signatories to the UNPRI and who publish the results of their UNPRI assessment. Where the Trustee is contemplating investing with an investment manager who is not a signatory to the UNPRI the investment manager will be asked to explain why they are not a signatory. The Trustee may decide to invest with a non-signatory investment manager if it considers it appropriate to do so in the circumstances for example because the investment manager or investment manager's fund has other characteristics which are important for meeting the Trustee's investment objectives.

The investment managers are expected to exercise their powers of investment with a view to giving effect to the principles contained within this statement, so far as reasonably practicable.

The investment managers' remuneration is based upon a percentage value of the assets under management. The Scheme's Direct Lending and Infrastructure Equity mandates are also subject to performance related fee elements. All fees have been negotiated to be competitive and are reviewed on an ongoing basis.

As the Scheme's assets are invested in pooled vehicles, the custody of the holdings is arranged by the investment managers. The custodian provides safekeeping for the assets and performs all associated administrative duties such as the collection of dividends.

5. Investment Manager Monitoring and Engagement

With assistance from Isio, the PFISC and Trustee monitor the continuing suitability of the Scheme's investments, including the appointed managers for all matters which are deemed to be financially material and engages with them on such matters. If Isio's monitoring indicates that an investment manager may no longer be appropriate, Isio will bring this to the attention of the PFISC who will consider with advice from Isio whether it should, and if so how best to, realise/disinvest from the investment manager's fund, before consulting with the Trustee.

Below is a summary of areas covered by Isio's monitoring and how the PFISC seeks to engage on these matters with investment managers.

Areas for engagement	**Method for monitoring and engagement**	**Circumstances for additional monitoring and engagement**
Performance, Strategy and Risks	• The Trustee and PFISC both receive quarterly performance reporting which details information on the underlying investments' performance, strategy and overall risks, which	• There are significant changes made to the investment strategy. • The risk levels within the assets managed by the investment managers have

	are considered at the relevant PFISC/Trustee meeting. • Where appropriate, the Scheme's investment managers are invited, in person, to present to the PFISC on their performance, strategy and risk exposures.	increased to a level above and beyond the Trustee's expectations. • Underperformance vs the performance objective over the period that this objective applies.
Environmental, Social, Corporate Governance factors and the exercising of rights and engagement activity	• When attending PFISC meetings, investment managers will be asked to present to the PFISC on actions they have taken in respect of ESG factors and their exercise of rights and engagement activity. • The PFISC will be provided with detailed summaries of existing manager engagement with Environment, Social and Corporate Governance factors.	• The manager has not acted in accordance with their policies and frameworks.

Through the engagement described above, the PFISC and the Trustee will work with the investment managers to improve their alignment with the above policies where appropriate. Where sufficient improvement is not observed, the Trustee will review the relevant investment manager's appointment and will consider terminating the arrangement.

6. Policy on Non-Financial Matters

The Trustee will be happy to consider, and where it believes it is appropriate to do so, take into account the views of the members and beneficiaries. Such considerations may include, but are not limited to, ethical views and views in relation to social and environmental impact.

7. Employer-related Investments

The Trustee's policy is not to hold any employer-related investments as defined in the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005 except where the Scheme invests in pooled vehicles that may hold employer-related investments, in which case the total exposure to employer-related investments will not exceed 5% of the Scheme's value.

8. Direct Investments

Direct investments, as distinguished by the Pensions Act 1995, are products purchased without delegation to an investment manager through a written contract. When selecting and reviewing any direct investments, the Trustee will obtain appropriate written advice from their investment advisers.

9. Governance

The Trustee of the Scheme makes all major strategic decisions including, but not limited to, the Scheme's asset allocation and the appointment and termination of fund managers.

When making such decisions, and when appropriate, the Trustee takes proper written advice. The Trustee's investment advisers, Isio, are qualified by their ability in and practical experience of financial matters and have the appropriate knowledge and experience. The investment adviser's remuneration may be a fixed fee or based on time worked, as negotiated by the Trustee in the interests of obtaining best value for the Scheme.

10. Compliance

This Statement has been prepared in compliance with the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005. Before preparing or subsequently revising this Statement, the Trustee consulted the sponsoring employer and took appropriate written advice. The Statement is reviewed at least every three years, and without delay after any significant change in investment policy.

Adopted by the Trustee on 30 September 2020

Appendix A – Risks, Financially Material Considerations and Non-Financial matters

A non-exhaustive list of risks and financially material considerations that the Trustee has considered and sought to manage is shown below.

The Trustee adopts an integrated risk management approach to managing these risks over the long term. The three key risks associated within this framework and how they are managed are stated below:

Risks	Definition	Policy
Investment	The risk that the Scheme's funding position deteriorates due to the assets underperforming.	Selecting an investment objective that is achievable and is consistent with the Scheme's funding basis and the Sponsor's covenant strength. Investing in a diversified portfolio of assets.
Funding	The extent to which there are insufficient Scheme assets available to cover ongoing and future liability cash flows.	Funding risk is considered as part of the investment strategy review and the actuarial valuation. The Trustee will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.
Covenant	The risk that the Sponsor becomes unable to continue providing the required financial support to the Scheme.	When developing the Scheme's investment and funding objectives, the Trustee take account of the strength of the covenant, ensuring the level of risk the Scheme is exposed to is at an appropriate level for the covenant to support.

The Scheme is exposed to a number of underlying risks relating to the Scheme's investment strategy, details on these risks and how they are managed by the Trustee over the long term are summarised below:

Risks	Definition	Policy
Interest rates and inflation	The risk of mismatch between the value of the Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	The Trustee aims to hedge this risk both directly and indirectly where appropriate and affordable.
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay member benefits as they fall due (including transfer values), and to provide collateral to the LDI mandate.
Market	Experiencing losses due to factors that affect the overall	To remain appropriately diversified to avoid over-reliance on any one asset

	performance of the financial markets.	class, and hedge unrewarded risks where affordable and practicable.
Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors. To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Scheme for the risk of default.
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria: 1. Responsible Investment ('RI') Policy / Framework 2. Implemented via Investment Process 3. A track record of using engagement and any voting rights to manage ESG factors 4. ESG specific reporting 5. UN PRI Signatory The Trustee, with the assistance of the PFISC, monitors the managers on an ongoing basis.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	To largely invest in GBP share classes where possible to eliminate direct currency risk. To largely invest with managers that hedge exposure to foreign currency risk in underlying holdings, except where active currency positions are held.(1)

Notes: (1) The Scheme's direct lending manager, Permira, may have non-GBP principal investments which are hedged back with a portion of income hedged also.

Appendix B – Manager Incentivisation

The Trustee has the following policies in relation to the investment management arrangements for the Scheme:

How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's policies.	• The Trustee defines its policies and objectives, and then selects managers whose strategy and decisions are consistent with these. With the assistance of Isio and the PFISC, the Trustee monitors the managers to check they maintain consistency. As the Scheme is invested in pooled funds, there is not scope for the Trustee to tailor these funds to their specific requirements. . • The Scheme's mandates with Permira and IFM are subject to a performance related fee.
How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.	• The Trustee reviews the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements. • The Trustee with the assistance of the PFISC monitors the investment managers' engagement and voting activity as part of their ESG monitoring process and where appropriate will take action to address any concerns. • The Trustee does not incentivise the investment managers to make decisions based on non-financial performance.
How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustee's policies.	• The Trustee reviews the performance of all of the Scheme's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives. • The Trustee evaluates performance in line with the Scheme's medium term objectives over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years. • The Trustee, in conjunction with their investment advisor, monitors investment manager fees in order to determine if these still represent value for money and are reflective of market rates.
The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.	• The investment managers are incentivised to minimise turnover costs as they are measured on a net of cost basis, and as such the Trustee does not separately monitor turnover costs.

The duration of the Scheme's arrangements with the investment managers	• The duration of the arrangements is considered in the context of the type of fund the Scheme invests in. o For closed-ended funds or funds with a lock-in period, the Trustee ensures the timeframe of the investment or lock-in is in line with the Trustee objectives and Scheme's liquidity requirements. o For open-ended funds, the holding periods are flexible and the Trustee will on an ongoing basis consider the appropriateness of these investments and whether they should continue to be held.