Statement of Investment Principles

Taylor Wimpey Pension Scheme

September 2017

Introduction

This document contains the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995, as amended by the Pensions Act 2004 (the "Act"), for the Taylor Wimpey Pension Scheme ('the Scheme'). It describes the investment policy being pursued by the Trustee of the Scheme and is in compliance with the principles contained in the voluntary code, the UK Stewardship Code ("the Code"), published by the Financial Reporting Council in July 2010 and updated in September 2012. This SIP also reflects the requirements of Occupational Pension Schemes (Investment) Regulations 2005.

Taylor Wimpey Pension Trustees Ltd ('the Trustee') is responsible for the investment of the Scheme's assets and arranges administration of the Scheme. Where it is required to make an investment decision, the Trustee always receives advice from either or both of the properly appointed actuary and the properly appointed investment consultant first and it believes that this ensures that it is appropriately familiar with the issues concerned.

Signed .... Date 30.9.17

For and on behalf of the Trustee of the Taylor Wimpey Pension Scheme

1.1 Scheme Governance

The Trustee is responsible for the governance and investment of the Scheme's assets. The Trustee considers that the governance structure set out in this SIP is appropriate for the Scheme as it allows the Trustee to make the important decisions on investment policy, while delegating the day-to-day aspects to the Investment Managers or its advisers as appropriate.

The Trustee has delegated specific responsibility for recommending appropriate investment objectives and for developing and implementing an investment policy to achieve these objectives to an Investment Sub-Committee ("ISC"). The ISC recommends appropriate objectives based on advice from the appointed actuary and the investment consultant.

1.2 Investment Objectives

- The principal objective of the ISC is to invest the assets of the Scheme to meet its liabilities when they fall due.

- The Scheme's investment strategy is managed and monitored using a Pensions Risk Management Framework ("PRMF") which outlines the Scheme's funding objectives and risk constraints. The PRMF was set by the Trustee following advice from the investment consultant, based on results from an Asset-Liability Management analysis and a survey exercise of the Scheme's key stakeholders. The PRMF is reviewed and monitored by the Trustee on at least a quarterly basis including the expected return on assets as provided by the investment consultant.

- The ISC's primary funding objective for the Scheme is to reach full funding on a Self-Sufficiency basis, using a liability discount rate of Gilts + 0.35%. If the Scheme achieves full funding on this basis, it is expected to be able to generate sufficient returns to remain fully funded without relying on further deficit repair contributions or taking significant investment risk.

- The ISC has currently set an objective to reach full funding on a Self-Sufficiency basis by 2030, this is however subject to change depending on future market conditions.

- The ISC will consult with the Sponsor on investment objectives with a view to reaching an agreement for recommendation to the Trustee.

- In setting the investment strategy, the ISC aims to:

  - Target an expected return on assets close to the return required to meet the funding objective.

  - Manage the investment risk including that arising due to mismatch between assets and liabilities and limit the total Scheme risk to below the risk budget set in the PRMF.

  - Maintain the Scheme's interest rate and inflation hedge ratios to the funding level, in order to stabilise the funding ratio against interest rate and inflation volatility, which would otherwise be a significant source Scheme risk.

- Maintain suitable liquidity of assets such that the Scheme is not forced to sell investments at particular times to pay member benefits or meet potential collateral calls.

1.3 Investment Managers

- The ISC delegates the day-to-day management of the assets to the appropriate investment managers.
- Investment Managers are carefully selected by the ISC to manage each of the underlying mandates following guidance and written advice from its investment consultant.
- The Scheme pays an annual fee to each manager which, along with the mandate's performance targets, benchmarks and restrictions, are set out in the respective Investment Management Agreements or pooled fund documentation where applicable.
- The ISC assesses the managers' performance regularly against a benchmark appropriate to each manager, taking into account the level of risk taken by each manager.
- From time to time managers and/or mandates are changed and this is done after due consideration and the receipt of appropriate advice from the Scheme's investment consultant.

1.4 Investment Strategy

Having considered advice from its advisers, and also having due regard for the objectives, the liabilities of the Scheme, the risks of and to the Scheme and the covenant of Taylor Wimpey Limited ('Sponsor'), the ISC has adopted an appropriate investment strategy. The investment strategy is driven by the objectives and constraints from the Pension Risk Management Framework, which helps balance the risks and returns required to reach the Scheme's funding objectives.

This investment strategy is designed to ensure two criteria are met:

- **Diversification**

  The choice of investments is designed to ensure that the Scheme's investments are adequately diversified given the Scheme's circumstances. The ISC will monitor the strategy regularly to ensure that they are comfortable with the level of diversification.

- **Suitability**

  The ISC has taken advice from its advisers to ensure that the asset allocation strategy is suitable for the Scheme, given its liability profile, any legal requirements, regulatory guidance and specifications in the Trust Deed.

1.5 Monitoring

Investment Managers

The ISC will monitor the performance of the Investment Managers against the agreed performance objectives.

The ISC, or the advisers on behalf of the ISC, will regularly review the activities of the Investment Managers to satisfy itself that each Investment Manager continues to carry out their work competently and has the appropriate knowledge and experience to manage the assets of Scheme.

As part of this review, the ISC will consider whether or not each Investment Manager:

- Is carrying out its function competently.
- Has regard to the need for diversification of investments.
- Has regard to the suitability of each investment and each category of investment.
- Has been exercising its powers of investment with a view to giving effect to the principles contained in this SIP, so far as is reasonably practical.

To assist the ISC in assessing performance, the investment consultant provides relevant reporting on a quarterly basis. As part of this process, the ISC has delegated the detailed monitoring of the Scheme's investment managers to its investment consultant.

If the ISC is not satisfied with an Investment Manager, it will ask the Investment Manager to take steps to rectify the situation. If the Investment Manager still does not meet the ISC's requirements, it may remove the Investment Manager and appoint another.

1.6 SIP

The ISC aims to review this SIP annually, or, without delay, following any changes to the investment strategy, and modify it in consultation with their advisers and the Sponsor if deemed appropriate. There will be no obligation to change this SIP as part of such a review.

1.7 Risks

There are various risks to which any pension scheme is exposed. The ISC's policy on risk management is as follows:

- The primary risk upon which the ISC focuses is that arising through a mismatch between the Scheme's assets and its liabilities.

  The ISC recognises that, whilst increasing investment risk increases potential returns over the long term, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's liabilities, as well as produces more short-term volatility in the

Scheme's funding position. The ISC has taken advice on the matter and considered carefully the implications of adopting different levels of risk.

- The Scheme has a policy to hedge the interest rate and inflation exposures arising from the liabilities such that the hedge ratios are broadly equal to the Scheme's funding ratio on the Gilts + 0.35% basis. The intent of this hedging is to minimise the impact on the Scheme's funding ratio of interest rate and inflation movements.

- The Scheme has purchased insurance policies[1] which provides a match for the key investment and non-investment risks for the members of the Scheme to which the policy relates (i.e. interest rate, inflation and longevity risks). Whilst the key investment and non-investment risks are removed by the insurance policies, the ISC is exposed to the counterparty risk of the insurance company (i.e. risk of default), albeit with regulatory protections in the form of supervision and intervention by the Prudential Regulatory Authority. The ISC has considered and is satisfied with the financial strength of the selected insurance companies.

- The risk that the day to day management of the assets will not achieve the rate of investment return expected by the ISC. This risk is managed by close monitoring of the investment managers by the ISC, through the use of risk controls and ensuring the Scheme's portfolio is properly diversified.

- The ISC recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the ISC aims to ensure that the asset allocation policy is adequately diversified.

- The documents governing the manager appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Scheme. The managers are prevented from investing in asset classes outside of their mandate without the ISC's prior consent.

- The ISC recognises the risks associated with the Scheme's assets not being held in safe custody. To manage this risk, day to day control of segregated custody arrangements has been delegated to a single global custodian appointed by the ISC. Whilst the ISC does not directly appoint a custodian of the assets contained within pooled fund investments, the ISC is satisfied that the managers responsible for the appointment and monitoring of the relevant custodians fulfil this obligation competently. The ISC has a service level agreement in place with the custodian and will regularly monitor its performance through an independent consultant.

- The ISC recognises the risk associated with the Scheme's assets that are denominated in overseas currencies fluctuating in value in Sterling terms due to currency movements. To protect against this risk, the Scheme's assets that are denominated in non-Sterling currencies are either fully or partially hedged.

- The ISC recognises Environmental, Social and Governance ("ESG") risks as financially material risks. The ISC has therefore written a Responsible Investing policy detailing how

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[1] The Scheme entered into insurance policies with Partnership Assurance Group PLC and Standard Life in respect of a portion of the Scheme's pensioners. The total fair value of these insurance policies as of 31 December 2015 was £247m.

these risks will be considered in the Scheme's investment strategy. This policy is set out in Section 1.8.1

Should there be a material change in the Scheme's circumstances, the ISC and the Trustee will review whether and to what extent the investment arrangements should be altered and, in particular, whether the current risk profile remains appropriate.

1.8 Social, Environmental and Ethical Issues

The ISC (on behalf of the Trustee) encourages the Scheme's investment managers to take account of social, environmental and ethical considerations insofar as they believe such considerations will benefit performance and/or reduce risk.

For those assets of the Scheme invested in pooled vehicles, the Trustee accepts that the assets are subject to the investment managers' own policies on social, environmental and ethical investment.

The ISC has defined its beliefs regarding Social, Environmental and Ethical issues in a "Responsible Investing Policy" as set out below.

1.8.1 Responsible Investing Policy

The Trustee believes the Scheme is a long-term investor and seeks to achieve sustainable returns at an appropriate level of risk over its lifetime.

The Trustee believes that Environmental, Social and Governance ("ESG") risks are financially material risks and should be considered as part of the investment strategy and implementation decisions. The Trustee believes that the most important methods of managing these risks are integration and engagement (defined below). However, the relevance and impact of integration and engagement will vary between different asset classes.

Integration: integrating the analysis of ESG risks into the active investment decision-making processes. The Trustee believes ESG risks are no less important than any other risks to the Scheme's investments and any active asset manager's process should fully incorporate these risks when assessing the attractiveness of investment opportunities.

Engagement: the Scheme's investment managers are encouraged where possible, to engage directly on ESG risks with the entities they are investing in (whether debt or equity).

When investing in new asset classes, the Trustee assesses, with advice from their advisers, the relevance of ESG-related risks and the most appropriate way to ensure that they are incorporated into the mandate. These views will then affect:

- Whether the asset class is appropriate for the Scheme given the ESG risks it is exposed to and the methods available for managing these risks;
- Where relevant, the selection of a preferred asset manager with a clear commitment to responsible investing, i.e. a manager that has an appropriate approach to integration and engagement for the given asset class.

The ESG policy will be reviewed on an annual basis as part of the Scheme's SIP review.

On an ongoing basis, the Trustee's investment consultant monitors each asset manager's approach to ESG and regularly reports on this to the Trustee.

To remain accountable and transparent, the Trustee has agreed to include this Responsible Investing policy within the Scheme's Statement of Investment Principles.

1.9 Other Key Policies

1.9.1 Statutory Funding Objective

The ISC will obtain and consider proper advice on the question of whether the investments are satisfactory having regard to both the investment objectives and the requirement to meet statutory funding requirements.

The funding position is reviewed periodically by the Scheme Actuary, with a full actuarial valuation at least every three years.

The ISC will consider with their advisers whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding objective.

1.9.2 Corporate Governance

The ISC's policy on the exercise of rights attaching to investments, including voting rights, is that these rights should be exercised by the Investment Managers on behalf of the ISC having regard to the best financial interests of the beneficiaries. The ISC has been made aware of each Investment Manager's corporate governance policy where appropriate and has delegated the exercise of such rights to the Investment Managers.

1.9.3 Additional Assets

The assets in respect of additional voluntary contributions (AVCs) are invested separately from the main Scheme with AVC providers and are reviewed by the Trustee to ensure that they remain appropriate to the members' needs.

1.9.4 Realisation of Investments and Cashflow Policy

The investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation.

In order to meet benefit payments due to members of the Scheme, the ISC has implemented a "Liquidity Waterfall" structure which consist of investments in three separate, liquid funds, with varying expected returns, held with the Scheme's Liability Driven Investment manager. Cash flow requirements for the Scheme are generally met via disinvestments from this Liquidity Waterfall structure or as agreed with the ISC.

1.10 Defined Contribution Section

1.10.1 Investment Objectives and Risk

Investment Objectives

The Trustee's objectives are:

- To maximise the value of members' assets at retirement within appropriate risk parameters.
- To maintain the purchasing power of members' savings.
- To provide protection for members' accumulated assets in the years approaching retirement against:
  - Sudden (downward) volatility in capital value;
  - Fluctuations in the cost of annuities.

Risk

There are various risks to which any pension scheme is exposed. The Trustee has considered the following risks:

- The risk that low investment returns over members' working lives might contribute to an inadequate pension being secured.
- The risk that unfavourable market movements in the years just prior to retirement might lead to a reduction in anticipated benefits.

1.10.2 Investment Strategy

Members of the defined contributions section are able to invest in a range of unit-linked funds which the Trustee believes satisfy most member's investment objectives, whilst taking into consideration the risks outlined above. In addition, members are able to invest in a lifestyling policy.