The Taylor Wimpey Pension Scheme (the "Scheme")
Statement of Investment Principles
July 2020

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"**).

This SIP 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 Limited (the **"Trustee"**) is responsible for the investment of the Scheme's assets and the 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.

Signature	Name	Date
[redacted]	Anna Edgeworth - Chairman	2nd July 2020

For and on behalf of Taylor Wimpey Pension Trustees Limited

Taylor Wimpey Pension Scheme

1. Scheme Governance

1.1. 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.

1.2. 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 (the **"ISC"**). The ISC recommends appropriate objectives based on advice from the appointed actuary and the investment consultant.

2. Investment Objectives

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

2.2. 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.

2.3. 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.

2.4. The ISC has currently set an objective to reach full funding on a Self-Sufficiency basis by 2025, this is however subject to change depending on future market conditions.

2.5. The ISC will consult with Taylor Wimpey UK Limited (the **"Sponsor"**) on investment objectives with a view to reaching an agreement for recommendation to the Trustee.

2.6. In setting the investment strategy, the ISC aims to:

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

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

2.6.3. 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 of Scheme risk; and

2.6.4. 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.

3. Investment Strategy

3.1. 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 the 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.

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

3.2.1. ***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.

3.2.2. ***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 Scheme's Trust Deed & Rules.

4. Investment Managers

4.1. The ISC delegates the day-to-day management of the assets to the appropriate investment managers.

4.2. Investment Managers are carefully selected by the ISC to manage each of the underlying mandates following guidance and written advice from its investment consultant.

4.3. The Scheme pays fees 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.

4.4. 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.

4.5. 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.

5. Investment Manager Policy

5.1. Due to the benefits of cost and ease of implementation, the ISC mainly invests in pooled investment vehicles. The ISC recognises that due to the collective nature of these investments, there is less scope to directly influence how the asset manager invests. However, the Scheme’s investment advisers ensure the investment objectives and guidelines of the manager are consistent with that of the ISC.

5.2. The ISC shares its SIP (which includes its responsible investment and stewardships (engagement) policy) with the managers periodically, with the aim of ensuring the managers always invest in line with the policies of the ISC.

5.3. The ISC appoints Investment Managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. The ISC will monitor the performance of the Investment Managers against the agreed performance objectives. When assessing a manager's performance, the focus is on longer-term outcomes and is assessed over a medium to longer-term timeframe. The ISC would not expect to terminate a manager's appointment based purely on short-term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

5.4. When relevant, the ISC requires its investment managers to invest with a medium to long-term time horizon, and use any rights associated with the investment to drive better long-term outcomes. For some asset classes, the ISC does not expect the respective asset managers to make decisions based on long term performance. These may include investments that provide risk reduction through diversification or through hedging, consistent with the strategic asset allocation of the ISC.

5.5. 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 the Scheme.

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

5.6.1. is carrying out its functions competently;

5.6.2. has regard to the need for diversification of investments;

5.6.3. has regard to the suitability of each investment and each category of investment; and

5.6.4. 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.

5.7. 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. The Trustee reviews the portfolio transaction costs and portfolio turnover range of managers periodically, where the data is disclosed and available. The Trustee will then determine whether the costs incurred were within reasonable expectations.

5.8. 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 in its place.

5.9. Managers are paid an *ad valorem* fee for a defined set of services (as well as additional performance fees, where these have been previously agreed with a manager in relation to performance above a specified benchmark). The Trustee reviews the fees periodically to confirm they are in line with market practices.

5.10. The Trustee's policy towards monitoring non-financial performance is set out in the Responsible Investment policy.

6. Review of 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.

7. Risks

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

7.1.1. 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.

7.1.2. 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.

7.1.3. The Scheme has purchased insurance policies[1] which provide 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.

7.1.4. 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.

7.1.5. 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.

7.1.6. 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.

[1] The Scheme entered into insurance policies with Just Group plc and Standard Life Aberdeen plc 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.

7.1.7. 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.

7.1.8. 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.

7.1.9. The ISC recognises Environmental, Social and Governance (**"ESG"**) risks as financially material risks. The ISC has therefore written a Responsible Investing policy detailing how these risks will be considered in the Scheme's investment strategy. This policy is set out in Section 8.4.

7.2. 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.

8. Responsible Investment

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

8.2. 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 ESG investment.

8.3. The ISC has defined its beliefs regarding ESG issues, and stewardship, in a "Responsible Investing Policy" as set out in the two sections below.:

8.4. ***<u>Environmental, Social and Governance:</u>***

8.4.1. 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.

8.4.2. The Trustee believes that 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.

8.4.2.1. ***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.

8.4.2.2. ***Stewardship and 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). This is outlined in further detail in the Stewardship and Engagement policy (8.5).

8.4.3. 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:

8.4.3.1. 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;

8.4.3.2. 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.

8.4.4. 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.

8.5. ***Stewardship and Engagement Policy:***

8.5.1. Direct engagement with underlying companies (as well as other relevant persons) of which the Trustee owns shares and debt is carried out by the Scheme's investment managers.

8.5.2. This includes monitoring and engaging with issuers of debt or equity on financially material issues concerning strategy, capital structure, management of actual or potential conflicts of interest, risks, environmental impact, social considerations and corporate governance. Where relevant, the Trustee expects its managers to use voting rights to effect the best possible sustainable long-term outcomes.

8.5.3. The Trustee expects all its investment managers to practice good stewardship. When selecting new managers, the Trustee's investment advisers assess the ability of each investment manager to engage with underlying companies in order to promote the long-term success of the investments.

8.5.4. Although the Trustee chooses managers that align with its beliefs on stewardship, there are instances where the Trustee has less direct influence over the managers' policies on the exercise of investment rights, for example, where assets are held in pooled funds, due to the collective nature of these investments. The Trustee monitors and discloses the voting behaviour carried out on its behalf. If the Trustee deems it not suitable it will engage with the relevant manager and seek to better align the behaviour of the manager with the policies of the Trustee.

8.5.5. The Trustee currently has a preference for 'Engagement' rather than 'Exclusion' as a method of incorporating climate change risks into an effective risk management framework. The Trustee expects its investment managers to invest in line with this preference for Engagement unless the mandate that the Trustee has chosen requires exclusion according to certain criteria.

8.5.6. When selecting, monitoring and de-selecting asset managers, engagement is factored into the decision-making process to the appropriate level for the specific asset class in question. The Trustee reports periodically on how its investment managers have acted in accordance with the Trustees' policy on stewardship and engagement. In addition, the Trustee meets directly with each of its investment managers periodically and – where relevant and appropriate – questions the manager on their activities with respect to stewardship and engagement. The Trustee will disclose any highlights as part of this review annually in its implementation statement.

9. Other key policies

9.1. ***Statutory Funding Objective:***

9.1.1. 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.

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

9.1.3. 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.

9.2. ***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.

9.3. ***Realisation of Investments and Cashflow Policy:***

9.3.1. 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.

9.3.2. 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.

10. Additional Voluntary Contributions ("AVCs")

10.1. ***Investment Objectives and Risk:***

10.1.1. ***Investment Objectives:*** The Trustee's objectives are:

10.1.1.1. to maximise the value of members' assets at retirement within appropriate risk parameters;

10.1.1.2. to maintain the purchasing power of members' savings; and

10.1.1.3. to provide protection for members' accumulated assets in the years approaching retirement against:

(a) sudden (downward) volatility in capital value;

(b) fluctuations in the cost of annuities.

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

10.1.2.1. the risk that low investment returns over members' working lives might contribute to an inadequate pension being secured; and

10.1.2.2. the risk that unfavourable market movements in the years just prior to retirement might lead to a reduction in anticipated benefits.

10.2. ***<u>Investment Strategy:</u>***

Members with AVCs in the Scheme are able to invest in a range of unit-linked funds which the Trustee believes satisfy most members' investment objectives, whilst taking into consideration the risks outlined above. In addition, members are able to invest in a lifestyling strategy.