

Flowserve (UK) Limited Pension Scheme (“the Scheme”)

Annual Statement regarding governance of defined contribution (DC) arrangements including additional voluntary contributions (AVCs)

This statement has been prepared by the Trustees of the Scheme in accordance with regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996. It describes how the Trustees have met the statutory governance standards in relation to the DC arrangements over the Scheme year to 5 April 2021, in the relation to:

- the default investment arrangements
- assessment of charges and transaction costs
- requirements for processing core financial transactions
- assessment of value for members
- the requirement for trustee knowledge and understanding.

The Trustees have decided that the “charges year” for the purposes of the Occupational Pension Schemes (Charges and Governance) Regulations 2015 shall be the same as the Scheme year.

The Flowserve (UK) Limited Pension Scheme is used as a qualifying scheme for Auto-enrolment purposes.

COVID-19

During 2020, the Trustees worked closely with their advisors and service providers to monitor the impact of COVID-19 on the Scheme. This work included close monitoring of the administration service and investment performance and considering the pandemic’s long-term implications on the Scheme’s DB and DC Sections.

Investment strategy relating to the Scheme’s DC investments (default and other investment options)

The Scheme’s investment strategy, including details of the default investment option, is set out in the Scheme’s Statement of Investment Principles (‘SIP’) which governs decisions about investments. The latest SIP is attached to this Statement.

Members who join the Scheme and who do not choose an investment option are placed into the Scheme’s default investment option, the Balanced Lifestyle.

The Trustees believe the Balanced Lifestyle is invested in the best interests of the majority of members, because:

- It provides the members with suitable investment return whilst they are far away from retirement, and then manages risk by diversifying the portfolio as the members approach retirement age.
- It targets a retirement position which the Trustees believe suits the demographics of the membership, whilst also taking account of the fact that many members will not change their investment decision, even as they approach retirement.
- Members are not required to make any election to commence contributing to the default lifestyle or to change investments throughout membership as the lifestyle rebalances automatically.

During the growth phase the Balanced Lifestyle strategy invests in global equities and then moves into a diversified growth fund between 20 and 10 years from the member’s selected retirement date. As

members approach their selected retirement date, their assets gradually switch into lower risk and lower volatility investments targeting a balanced retirement outcome (rather than targeting a specific retirement option such as annuity purchase).

The Trustees are responsible for the investment governance of the Scheme funds, which includes setting and monitoring the investment strategy for the Scheme's default arrangement(s). The Trustees undertake a review of the performance of the funds underlying the default arrangement, and the self-select funds, on an annual basis. The Trustees periodically, and on no less than a three-yearly cycle, review the appropriateness of the default arrangements. They will undertake an earlier review if there are any significant changes in legislation, investment policy or member demographics. The performance of the Defined Benefit (DB) Section AVC funds is also reviewed from time to time. These were last reviewed by the Funding & Investment Sub-committee (FISC) on 22 June 2021.

In addition to the funds that make up the default lifestyle strategy: Aviva BlackRock (40:60) Global Equity Index Fund, Aviva LGIM Diversified Fund, Aviva L&G Pre-Retirement Fund and Aviva Cash Fund, the following funds in the fund range are classified as 'default arrangements' because they previously received assets from other funds as part of an investment change without explicit member consent: Aviva BlackRock UK Equity Index Fund and Aviva BlackRock World (Ex-UK) Equity Index Fund.

A detailed review of the default arrangements and wider fund range, which included consideration of the demographics of the membership and retirement options available to DC members, was undertaken by the Trustees' advisers Willis Towers Watson and presented to the Trustees at the Trustee meeting on 20 June 2018. Following the review, it was advised that changes should be made to the default investment option and wider fund range. The Trustees implemented changes to the default investment option, lifestyle options and wider fund range in Quarter 3 2019.

A detailed investment strategy review was undertaken at the FISC meeting on 22 June 2021. Further details of the outcome of the investment strategy review and to investment strategy arising from that review will be included in the annual governance statement covering the period to 5 April 2022.

The Trustees have updated the SIP to reflect the requirements to address stewardship in more detail and revise the trustees' investment disclosure obligations. The SIP was updated to include details of how the Trustees incentivise their appointed investment managers to align investment strategy with the Trustees' policies and how they make investment decisions based on long-term performance. The SIP was agreed on 20 September 2020.

Defined Benefit Additional Voluntary Contributions – Equitable Life transfer to Utmost Life and Pensions

With effect from 1 January 2020 Equitable Life transferred its existing policies to another provider - Utmost Life and Pensions ("Utmost").

As part of the transfer of the with-profits policies, Equitable Life uplifted members' policy values and investors gave up the guarantees that applied to their with-profits investments. The uplifted policy values are now invested in unit-linked investments.

Following a review of providers and market conditions the Trustees decided that the policies now invested in unit linked funds would remain invested with Utmost. Over the second half of 2020, these AVCs were gradually moved from Utmost's Secure Cash Fund to their Investing by Age lifestyle strategy. The Trustees will continue to monitor the Scheme's AVC arrangements with Utmost Life and Pensions, Standard Life and Prudential.

Assessment of charges and transaction costs for the default arrangements and other investment options

The Trustees are required to set out the ongoing charges and transaction costs borne by members over the Scheme year. The charges are paid by members and are reflected in the unit price of the funds. In accordance with regulation 25(1)(a) of the Occupational Pension Schemes (Scheme Administration)

Regulations 1996, the Trustees are also required to separately disclose the transactions costs borne by members over the period.

These are set out in the table below and are based on the information provided to the Trustees by the Scheme's provider Aviva. It is important to understand the meaning of the terms used:

- the annual management charge is the fee charged for managing the investments in a fund;
- additional expenses are expenses which are incurred in the day to day management of the investments which are not fixed (such as fees to auditors, trustees and valuers). The additional expenses incurred by the fund may change from year to year;
- the total expense ratio is the combined total of the annual management charge and additional expenses. This excludes transaction costs, costs relating to certain court orders, charges relating to pension sharing under the Welfare Reform and Pensions Act 1999, winding up costs, or costs solely associated with the provision of death benefits;
- transaction costs are costs that are incurred when buying, selling, lending or borrowing investments, which can occur when members invest in a fund or funds - these may be negative, meaning the price of a trade when transacted was lower than when the instruction to make the trade took place.
- Total Charges are the total expense ratio plus transaction costs.

For the Balanced Lifestyle (the default investment option), the Total Expense Ratio is between 0.29% and 0.41%, depending on the funds in which the member is invested, which is determined by how far a member is from retirement. This is significantly below the statutory charge cap that applies to Default Arrangements of 0.75% per annum and benchmarking carried out in the Value for Members Assessment showed this to be excellent value for members. For the other default arrangements (Aviva BlackRock UK Equity Index and Aviva BlackRock World (Ex-UK) Equity Index) the Total Expense Ratio for both funds is 0.29% for the Scheme Year, again, well below the charge cap of 0.75%.

The three lifestyle options available to members on a self-select basis invest in the same investment funds as the Balanced Lifestyle, and as such the same range of charges apply. These funds are shown in bold in the table below. The Trustees also allowed some members to retain their self-designed lifestyles at the most recent investment change exercise - the funds making up these lifestyles as well as other self-select funds are shown in non-bold font in the table below.

Fund name	Annual Management Charge (%pa)	Additional Expenses (%pa)	Total Expense Ratio (%pa)	Transaction costs (%pa)	Total charge (%pa)
Aviva Blackrock (40:60) Global Equity Index (Aquila C)	0.29	0.00	0.29	0.02	0.31
Aviva LGIM Diversified	0.41	0.00	0.41	0.00	0.41
Aviva L&G Pre-retirement	0.30	0.00	0.30	0.04	0.34
Aviva Blackrock Over 5 Year Index-Linked Gilt Index (Aquila C)	0.29	0.00	0.29	0.03	0.32
Aviva Blackrock UK Equity Index (Aquila C)	0.29	0.00	0.29	0.25	0.54
Aviva Blackrock World (Ex-UK) Equity Index (Aquila C)	0.29	0.00	0.29	0.04	0.33
Aviva BlackRock Emerging Markets Index Tracker	0.47	0.07	0.54	0.02	0.55
Aviva Cash	0.29	0.00	0.29	0.00	0.29
Aviva Pre-retirement Fixed Interest	0.29	0.00	0.29	0.04	0.33

Fund name	Annual Management Charge (%pa)	Additional Expenses (%pa)	Total Expense Ratio (%pa)	Transaction costs (%pa)	Total charge (%pa)
Aviva Stewardship	0.29	0.02	0.31	0.08	0.37
Aviva Property	0.29	0.00	0.29	0.12	0.41
Aviva Pacific Basin	0.29	0.00	0.29	0.06	0.35
Aviva HSBC Islamic Global Equity Index	0.29	0.30	0.59	0.02	0.61

Source: Transaction cost information provided by Aviva, the Scheme's provider. No transaction cost information is missing

The assets held in unit-linked investments with Utmost were held in a Secure Cash Fund between 6 April 2020 and 30 June 2020. A charge of 0.5% pa applied to this fund, however, the fund was guaranteed not to go down. For the period between 1 July 2020 and 31 December 2020 these investments were gradually switched to Utmost's Investing by Age Strategy. Utmost have provided transaction costs information for the funds as follows.

Period	Investment Fund	Annual Management Charge* (%)	Aggregate Transaction costs (%)	Total costs and transaction costs (%)
1 April 2020 – 31 March 2021	Utmost Multi-Asset Moderate Pension Fund	0.75	0.41	1.16
1 April 2020 – 31 March 2021	Utmost Multi-Asset Cautious Pension Fund	0.75	0.50	1.25
*Including additional expenses				

The DB Section AVCs held with Standard Life are in a combination of unit-linked and with-profits investments. Standard Life have provided the following information on the transaction costs applying to the unit-linked funds accessed by members.

Investment Fund	Annual Management Charge* (%)	Aggregate Transaction costs (%)	Total costs and transaction costs (%)
Standard Life Managed Pension Fund**	0.58 - 0.77	0.16	0.74 – 0.93
*Including additional expenses			
**Charges vary by member.			

Some members also hold AVC investments in Standard Life's with-profits fund and Prudential's with-profits fund. The charges and transaction costs for the with-profits fund are implicit within the bonus rate declared.

The Trustees are required to give an illustrative example of the effect over time of the charges and costs on the value of members' DC benefits. The illustration, which is included in appendix 2, sets out the cumulative effect over time of the charges and transaction costs on the value of a range of realistic and broadly representative funds, fund sizes and contribution rates.

The illustrations, provided by Aviva, aim to produce a range of illustrations which provide enough information to members to allow them to understand the impact of the costs and charges on their DC savings over time, noting that no illustration will exactly match the circumstances of any particular member.

Before charges – represent the savings projection assuming an investment return with no deduction of member borne fees or transaction costs.

After charges – represent the savings projection using the same assumed investment return but after deducting member borne fees and an allowance for transaction costs.

The links below are to websites which house the illustrations, this Chair's Statement, and the Scheme's Statement of Investment Principles.

<https://vfm.aviva.co.uk/flowservice-pension-scheme-F53927>

<https://vfm.aviva.co.uk/flowservice-pension-scheme-F56236>

Aviva has taken account of the DWP's statutory guidance on 'Reporting costs, charges and other information: guidance for trustees and managers of occupational pension schemes' when preparing these illustrations. The assumptions used to calculate the illustrations are included in Aviva's illustrations. It is important to note that the projected fund values are shown in today's terms. The figures are produced for illustrative purposes only and are in no way guaranteed.

Processing of core financial transactions

The Trustees must ensure that core financial transactions are processed promptly and accurately and must describe to members how this obligation is met.

Core financial transactions include the investment of contributions, transfers of assets into and out of the Scheme, fund switches and payments out of the Scheme to and in respect of members.

The administration of the DC section, including the processing of core financial transactions, is undertaken by Aviva on behalf of the Trustees.

The Trustees regularly monitor the core financial transactions of the Scheme through the review of quarterly reporting from Aviva and the monthly monitoring of contribution payments by the payroll team and by regular monitoring of Aviva's performance against service level agreements.

Aviva has provided the Trustees with assurances that there were adequate internal controls in place to ensure core financial transactions were processed promptly and accurately during the Scheme year. Aviva has provided an Audit and Assurance Faculty (AAF) report, which sets out how Aviva manages the risks associated with the delivery of the DC pension administration service, setting out the controls in place and operating throughout the Scheme year.

During this monitoring the Trustees have not identified any instances where contributions were allocated to members outside the required timeframes, or where there are any instances of issues with financial transactions, and are not aware of any material administration issues, errors or unreasonable delays.

In addition, the Trustees have oversight via the DB section administrator, Willis Towers Watson, of the core financial transactions of the DB section AVC arrangements with Utmost, Prudential and Standard Life. These transactions are limited given the small number of members still actively contributing.

The Trustees, having considered the above, have concluded that the Scheme's core financial transactions of the DC section and DB section AVC arrangements have been processed promptly and accurately during the Scheme year.

Value for members

The Trustees are required to assess the extent to which member borne charges and transaction costs represent good value for members. The Trustees carried out an assessment of the value delivered to DC section members over the Scheme year, with input from Willis Towers Watson, on 21 June 2021.

Whilst it is difficult to give a precise legal definition of "good value", the Trustees note that value for money does not necessarily mean the lowest fee, and the overall quality of the service received must also be taken into account. Accordingly, in the review, the Trustees have taken into account the quality of various services provided to members, the level to which the service is needed by the members, how the service is paid for and overall competitiveness of the costs applying to the service. The table below sets out the high-level results of the value for members assessment. The Trustees, taking account of the Pensions Regulator's Code of Practice No.13 (Governance and administration of occupational trust-based schemes

providing money purchase benefits), reviewed the services and features provided in five different assessment areas.

In assessing value, the Trustees considered the services and features provided to members through the Scheme, and the charges that members pay. Each area is scored on a scale of five levels of value: Excellent value, Good value, Sufficient value, Below average value and Poor value. The Trustees consider “good value” to be where services are provided to members that are of a reasonable or good quality and broadly meet the specific needs of the membership. The Trustee considers “excellent value” to be where services are provided to members that are of good or excellent quality and meet the specific needs of the membership.

Following a detailed assessment, the Trustees have agreed to retain the overall rating and believe that members have received **good value** from their membership. The only change from last year’s ratings is in the assessment area of Scheme governance and management, which based on the level of governance and oversight provided by the Trustees, the rating had changed from Good to Excellent.

Assessment Area	Rating
<p>Scheme governance and management</p> <p>Oversight and governance of the Trustees, ensuring the Scheme is compliant with relevant legislation, such as the charge cap, holding regular meetings to address issues that may impact members.</p>	Excellent
<p>Administration</p> <p>Oversight of the efficiency of the administration processes and the performance of the administrator, not only in terms of cases completed but also considering any complaints received, how these were dealt with and interactions with members.</p>	Good
<p>Investment</p> <p>The range and appropriateness of the investment options and strategies, as well as the objectives of the funds and performance against these objectives.</p>	Good
<p>Communications</p> <p>The quality and range of communications provided and available to members in written form, face to face and online, as well as support services available to members.</p>	Good
<p>Charges</p> <p>The competitiveness of the charges through benchmarking against both legislative and market comparators and research.</p>	Excellent

The Trustees believe that even though the services represent good value for money, there is still room for improvement and are considering the best way to achieve this, including reviewing the support and options available to members at retirement and access to a mobile application with Aviva for members to view their Scheme benefits.

As part of the review, the Trustees assessed the value provided to members in the DB section AVC arrangements. Considering the charges that apply to the AVC policies and given the benefits provided to members at retirement from their AVCs, the Trustees concluded that the AVC arrangements represent **sufficient** value for members. The Trustees considered there are no immediate actions required to improve the value received by AVC members.

Trustee Knowledge and Understanding (TKU)

The comments in this section relate to the Trustee Board as a body dealing with the whole Scheme and are not restricted to the DC Section. The Trustees have a sub-committee structure in place. The sub-committees in place cover Administration and Communications; Legal and Governance; and, Funding and Investment. Trustees with relevant experience and skills are placed on the respective sub-committees and the Trustees receive support from their advisors at the sub-committee meetings to ensure there is sufficient expertise and understanding of each discussion topic.

The Board has an established TKU process in place and a good working knowledge of the Scheme Documentation, which, together with the advice available to them from the Scheme's actuaries, advisors, lawyers and auditors, enables the Board to properly exercise its function as Trustees of the Scheme. The Trustees are able to use their knowledge to critically evaluate the advice of advisers and challenge it where required.

The Trustees have undertaken a review of the Advisors during the year, to ensure the quality of advice is good and value for money is provided. This has concluded that there are no current issues with the advice currently provided.

Throughout the Scheme year the Trustees' approach to meeting the TKU requirements included:

- All Trustees have a working knowledge of the Trust Deed and Rules, current SIP, and current Scheme policies from the induction process, general day to day management of the Scheme and quarterly meetings. The Trustees have access to these documents at all times. Over the Scheme year, the Trustees demonstrated a knowledge of the Scheme documents by reviewing and agreeing a revised SIP and reviewing the MNT policy.
- Training received by the individual Trustees, as well as upcoming training events and seminars, is recorded in a training log. This allows the Trustees to identify training gaps on an individual and collective basis in relation to pensions and trusts, the trust deed and rules, the SIP and the relevant principles relating to the funding and investment of occupational schemes.
- Discussing hot topics, legal developments and general updates from their advisers about matters relevant to the Scheme on a quarterly basis. Over the Scheme year, training topics have included RPI reform, valuation training, PCG (Parent Company Guarantee), LDI training, covenant monitoring, DB member choice, GMP, buy ins and the future of trusteeship and governance. These are intended to ensure that the Trustees consolidate and develop their knowledge of the law relevant to operation of the Scheme.
- Trustees are encouraged to complete the relevant modules on the Pensions Regulator's Trustee Toolkit. The Chair of Trustees follows up with any Trustees who have not completed the toolkit.
- Trustees assess training needs by undertaking Trustee effectiveness surveys. Survey results to date have highlighted no significant issues. The Trustees have decided to undertake the next review in Q4 2021.

The Trustees take advice from specialist pensions (Willis Towers Watson), investment (Willis Towers Watson) and legal (Baker Mackenzie) advisors, to help them to achieve their goals effectively for the year. Relevant advisors are present at Trustee and sub-committee meetings. The professional advisors proactively raise any changes in legal and governance requirements and other relevant matters as they become aware of them and will typically deliver training on such matters at Trustee meetings or specific training sessions.

Considering actions taken individually and as a trustee body, and the professional advice available to them, the Trustees consider that they are enabled properly to exercise their functions as Trustees.

Andrew Palin

Signed by the Chair on behalf of the Trustees of the Flowserve (UK) Limited Pension Scheme