Flowserve (UK) Limited Pension Scheme

Statement of Investment Principles

September 2020

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Section 1: Background

1.1 In this statement the following terms shall have the following meanings:

"**Investment Consultant**" means Towers Watson Limited

"Investment Managers" means BlackRock Investment Management (UK) Limited ("BlackRock"), Towers Watson Investment Management ("TWIM"), Aviva (which utilises funds managed by Schroder Investment Management Limited and Aviva Investors Limited), Legal and General Investment Management ("LGIM") and HSBC.

"Custodian" means Bank of New York Mellon (International) Limited ("BNYM")

"Pension Act" refers to the Act passed in 1995 (and as updated by the Pensions Act 2004) that, amongst other things requires trustees to prepare and regularly review a statement of the principles governing investment decisions

"**Scheme**" means the Flowserve (UK) Limited Pension Scheme

"Scheme Actuary" means Actuary as defined in the rules of the Scheme

"**Trustees**" means the Trustees of the Flowserve (UK) Limited Pension Scheme

1.2 The Scheme consists of two sections, a Defined Benefit (DB) section and a Defined Contribution (DC) section. The Trustees have adopted a different approach to the investment of the two sections. The DB section investment principles are contained in part three of this statement. The DC section investment principles are in part four. The remaining parts relate to both sections of the Scheme.

1.3 The Trustees' investment responsibilities are governed by the Scheme's trust deed: a copy of the relevant clause, of which this Statement takes full regard, is available for inspection.

1.4 The Scheme is registered under the Finance Act 2004.

Pensions Acts

1.5 Under the Pensions Act 1995 (and as updated by the Pensions Act 2004), the Trustees are required to prepare and regularly review a statement of the principles governing investment decisions. This document fulfils that requirement.

1.6 Before preparing this document, the Trustees have consulted the employer, Flowserve GB Limited and they will continue to consult prior to any further revision. However, the ultimate power and responsibility for deciding investment policy lies with the Trustees.

1.7 Before preparing this document, the Trustees have sought advice from the Scheme's Investment Consultant and the Scheme Actuary. The Trustees will review this document, in consultation with the Investment Consultant and Scheme Actuary usually once a year and at least every three years, or sooner following a significant change in investment policy or where the Trustees consider a review is needed for other reasons. Before preparing this document, the Trustees have had regard to the requirements of the Pensions Act 1995 concerning diversification of investments and the suitability of investments and the Trustees will consider those requirements on any review of this document or any change in their investment policy. The Trustees will refer to this document where necessary to ensure that they exercise their powers of investment so as to give effect to the principles set out in it as far as reasonable.

Financial Services and Markets Act 2000

1.8 In accordance with the Financial Services and Markets Act 2000, the Trustees will set general investment policy, but will delegate responsibility for selection of specific investments to an appointed Investment Manager, which may include an insurance company. The Investment Manager will provide the skill and expertise necessary to competently manage the investments of the Scheme.

IGG (formerly Myners) compliance

1.9 The Trustees have reviewed their compliance with the IGG principles (as stated in Appendix A)

1.10 Given that the time spent dealing with Scheme issues generally falls within the hours of normal employment, the Trustees feel that it is inappropriate to be further compensated for their time.

1.11 The Trustees have reviewed their governance arrangements and have decided to put in place a sub-committee to help better manage their collective responsibilities. The Trustees have put in place a terms of reference for this subcommittee, which outlines the responsibilities that have been delegated to the subcommittee and those that remain with the main Board. As before, the relevant expertise is achieved through periodic training and through seeking expert advice when required.

Section 2 : Division of Responsibilities

2.1 The Trustees have ultimate responsibility for decision-making on investment matters. In order to ensure that investment decisions are taken only by persons or organisations with the skills, information and resources necessary to take them effectively, the Trustees may delegate some of these responsibilities.

Trustees

2.2 The Trustees are responsible for:

- Reviewing the content of this Statement regularly, in conjunction with the investment consultants and the Scheme Actuary, and modifying it if deemed appropriate.
- Reviewing the investment policy following the results of each actuarial review and/or investment strategy review.
- Assessing the quality of the performance and processes of the Investment Manager(s) by means of regular reviews of the investment results and other information, such as meetings with the Investment Manager(s) and written reports.
- Appointing (and dismissing) investment manager(s).
- Consulting with the Employer when considering any amendment to this Statement.
- Monitoring compliance of the investment arrangements with this Statement on an ongoing basis.

2.3 The Trustees have appointed investment managers who are authorised and regulated by the Financial Conduct Authority to undertake investment business. The Trustees have taken written investment advice on whether investments are satisfactory from the Investment Consultant in the context of Section 36 of Pensions Act 1995 (as amended). The Trustees will continue to monitor, and take advice on, the investments on an ongoing basis.

Investment Managers

2.4 For the DB Section the investment managers are responsible for:

- Discretionary management of the portfolio, including implementation (within guidelines given by the Trustees) of changes in the asset mix and selecting securities within each asset class.
- Providing the Trustees with quarterly statements of the assets together with a quarterly report on actions and future intentions, and any changes to the processes applied to the portfolio.

- Informing the Trustees of any changes in the internal objectives and guidelines of any pooled funds used by the Scheme as soon as practicable.

Professional Advisors

2.5 The Trustees agree with the IGG (formerly Myners) best practice of paying particular attention to managing and contracting with external advisers (including advice on strategic asset allocation, investment management and actuarial issues). The Trustees believe that the current arrangement (using a single advisory firm for both actuarial and investment advice) has certain advantages for the Scheme. The Trustees will continue with the current arrangement until this ceases to be appropriate.

Investment Consultant

2.6 **Towers Watson Limited**, the investment consultant's responsibilities include:

- Participating with the Trustees in reviews of this statement.
- Advising the Trustees as requested:
  - through consultation with the Scheme Actuary on how any changes in benefits, membership and funding position may affect the manner in which the assets should be invested;
  - on how any changes at the investment manager(s) could affect the interests of the Scheme;
  - on how any changes in the investment environment could either present opportunities or problems for the Scheme.
- Undertaking project work as requested, including:
  - reviews of asset allocation policy;
  - reviews of the investment managers.
- Advising on the selection of new managers and/or custodians.

Scheme Actuary

2.7 The Scheme Actuary's responsibilities include:

- Performing the triennial (or more frequently, as required) valuations of the Scheme and advising on the appropriate contribution levels for the future.
- Assessing the funding position of the Scheme against all statutory funding requirements and advising on the appropriate response to any shortfall.
- Liaising with the investment consultant on the suitability of the Scheme's investment strategy given the financial characteristics of the Scheme.

Section 3: DB Section Investment Policy

3.1 The Trustees' main aims are:

- To make sure that they can meet the obligations to the beneficiaries of the Scheme.
- To pay due regard to Flowserve GB's interests on the size and incidence of employers' contribution payments.
- To generate a reasonable level of return, without undue exposure to risk.

Investment management

3.2 The assets of the Scheme are managed by BlackRock and TWIM in pooled funds. It is the intention of the Trustees to review the investment strategy on a regular basis.

3.3 The Scheme benchmark will be determined from time to time (without revising this Statement of Investment Principles) with regard to maximising the chance of achieving the Scheme's investment objective.

3.4 The Scheme has a journey plan which assumes a time horizon to reach the Scheme's long-term funding target of 100% funded on an appropriate self-sufficiency basis.

3.5 The Trustees monitor the actual allocation across asset classes against the Scheme's Journey Plan and rebalance using cashflows and manual adjustments where appropriate to achieve the required de-risking.

3.6 The portfolio is invested in a range of BlackRock passive pooled funds through a discretionary Liability Driven Investment (LDI) Portfolio, and a TWIM pooled fund (Core Diversified Fund, "CDF"), which are specifically designed for pension funds.

3.7 The investment manager is regulated by the Financial Conduct Authority and has day to day responsibility for the investment of the Scheme's assets. As required by the Financial Services Act, there are signed Agreements with the managers, which comply in all respects with this Statement. The Agreements provide important protections for the Scheme and for the Trustees. It also sets out the terms on which the assets are managed, including the investment briefs, guidelines and all of the restrictions under which the investment managers work.

3.8 A copy of the Investment Management Agreement is available for inspection.

Expected return

3.9 The Trustees expect that over the long term the investment strategy will produce a return sufficient to meet the Scheme Actuary's investment return assumptions used in the actuarial valuation.

Diversification

3.10 The choice of asset allocation specified above and the choice of investment managers are designed to ensure that the Scheme's investments are adequately diversified.

Suitability

3.11 The Trustees have taken advice from the Scheme's Actuary and Investment Consultant and consider that the benchmark ranges are currently suitable for the Scheme given its liability profile.

Liquidity

3.12 The Trustees, together with the Scheme's administrators, will ensure that they hold sufficient cash to meet the likely benefit outgo from time to time. The Trustees' policy is that there should be sufficient investments in liquid or readily realisable assets to meet unexpected cashflow requirements in the majority of foreseeable circumstances. The Trustees have also determined a policy for meeting cashflow requirements that is consistent with the Scheme's overall investment policy.

Rights attached to investments

3.13 The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights. TWIM then delegates exercising of rights to the underlying investment managers and encourages them to exercise the rights. BlackRock and TWIM's underlying investment managers provide regular reports detailing their voting activity.

3.14 The Trustees support the Institutional Shareholders (ISC) Code of Principles. The investment manager complies with these principles.

Soft commissions

3.15 The Scheme's investment managers do not enter into soft commission arrangements with brokers in relation to the Scheme's assets.

The Trustees policy with regard to risk

3.16 The Trustees pay close regard to the risks which may arise through a mismatch between the Scheme's assets and its liabilities and the risks which may arise from the lack of diversification of investments.

3.17 Subject to satisfying the risk from a mismatch of assets and liabilities, the Trustees believe that the asset allocation policy in place provides an adequately diversified distribution of assets. The current Agreement with the investment managers has regard to the need to diversify within each class of assets. The

Agreements also includes a number of guidelines which, amongst other things, are designed to ensure that only suitable investments are held by the Scheme.

3.18 The Trustees recognise that there is a risk in holding assets that cannot easily be sold should the need arise. To guard against this, the Trustees review the profile of the Managers' portfolios to ensure that there is sufficient liquidity to meet the likely cash flow demands and hold a liquidity buffer in readily realisable assets to meet unforeseen cashflows.

3.19 The terms of the Agreement do not allow the investment manager to do anything that could be considered to be speculative, or 'trading' by the Financial Services and Tax authorities.

3.20 The Trustees recognise a number of risks involved in the investment of the assets of the Scheme:

Solvency risk and mismatching risk:

- are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies
- are managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy

Manager risk:

- is measured by the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy
- is managed by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment processes

Liquidity risk:

- is measured by the level of cashflow required by the Scheme over a specified period
- is managed by the Scheme's administrators assessing the level of cash held in order to limit the impact of the cashflow requirements on the investment policy

Political risk:

- is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention
- is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy

Sponsor risk:

- is measured by the level of ability and willingness of the sponsor to support the continuation of the Scheme and to make good any current or future deficit
- is managed by assessing the interaction between the Scheme and the sponsor's business, as measured by a number of factors, including the creditworthiness of the sponsor and the size of the pension liability relative to a number of metrics reflecting the financial strength of the sponsor.

Manager monitoring (applicable to both the DB and DC sections of the Scheme)

3.21 The investment managers' appointment will be reviewed at least on an annual basis by the Trustees, based on the results of their ongoing monitoring of performance and investment process and of the investment managers' compliance with the requirements of the Pensions Act concerning diversification and suitability, where relevant. Advice on the suitability of investments will be provided by the Scheme's investment consultant.

3.22 The Trustees ensure that, in aggregate, the portfolio is consistent with the policies set out in this Statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustees will also ensure that the investment objectives and guidelines of any particular pooled vehicle are consistent with their policies, where relevant to the mandate in question. Where segregated mandates are used, the Trustees will use their discretion, where appropriate, to set explicit guidelines within the Investment Management Agreement to ensure consistency with the Trustees' policies, where relevant to the mandate.

3.23 To maintain alignment with the Trustees' policies and objectives, the investment managers will be provided with the most recent version of the Scheme's Statement of Investment Principles on an annual basis and are required to explicitly confirm that the Scheme's assets are managed in line with the Trustees' policies as outlined in the Statement.

3.24 In assessing the stewardship and engagement activities of the investment managers, the Trustees will consider relevant matters including the capital structure of investee companies, actual and potential conflicts, other stakeholders and the ESG impact of underlying holdings.

3.25 Should the Trustees' monitoring process reveal that a manager's portfolio is not aligned with the Trustees' policies, the Trustees will engage with the manager further to encourage alignment. This monitoring process includes specific consideration of the sustainable investment/ESG characteristics of the portfolio and managers' engagement activities. If, following engagement, it is the view of the Trustees that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced.

3.26 For most of the Scheme's investments, the Trustees expect the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods.

3.27 The Trustees appoint their investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustees 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, or due to cashflow requirements of the Scheme.

Transaction costs

3.28 The Trustees have considered the policies of the Investment Managers on transaction costs (including commissions) and are comfortable with them. The Trustees will continue to monitor this from time to time. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustees will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

Fees

3.29 The Investment Managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement.

3.30 Fees are also paid to the Scheme's Actuary and investment consultant.

Section 4: DC Section Investment Policy

4.1 The Trustees recognise that members have differing investment needs and that these may change during the course of members' working lives. They also recognise that members have different attitudes to risk. The Trustees believe that members should make their own investment decisions based on their individual circumstances. If no fund choice is made, a default investment option is used.

4.2 The Trustees' objective therefore is to make available a range of investment options which should assist members in achieving the following, whilst avoiding over complexity:

- Maximising the value of retirement benefits.
- Protecting the value of those benefits in the years approaching retirement.
- Providing a suitable default investment option for the members that allows them to start saving retirement benefits without the necessity of making an investment decision.
- Providing a range of investment options to meet the investment needs of members as they approach retirement.
- Providing sufficient self-select investment options to allow members access to a suitable range of asset classes and investment risk, for members to be able to tailor their own investments to meet their own needs.

4.3 The Trustees have considered risk from a number of perspectives, including:

- The risk that the investment over members' working lives will not keep pace with inflation and does not, therefore, secure an adequate retirement income.
- The risk that investment market movements in the period just prior to retirement, lead to a substantial reduction in the anticipated level of pension and/or cash lump sum.
- The risk that the investment vehicles in which monies are invested underperform the expectation of the Trustees.
- The risk that members may be invested in inappropriate investment options which do not suit the member's retirement goals.

4.4 The Trustees use Aviva, LGIM, HSBC and BlackRock as providers for the DC investment options. Aviva invests members' contributions through pooled funds.

4.5 The latest detailed review of the DC section investment options was undertaken in 2016. The Trustees revisited this review in Q1 2018 and decided to implement a number of changes to the investment strategy, principally as a result of the Pension Freedoms legislation. These changes will be implemented towards the end of Quarter 3/Quarter 4 2019.

Lifestyle options

4.6 As part of the 2019 investment strategy changes, the Trustees replaced the existing lifestyle option, with a default lifestyle option, and there are an additional three focussed lifestyles. These focussed lifestyles are designed for members targeting specific retirement options:
- taking a cash lump sum at retirement
- purchasing an annuity
- moving investments to a drawdown product.

4.7 As part of the investment strategy changes, the Trustees allowed members to retain investment in the legacy lifestyle where they had specifically selected investments to make up the growth phase of their lifestyle. As a result, a small number of members retain their investments in the legacy lifestyle arrangement including investments in the Aviva Pre-Retirement Fixed Interest Fund, which was replaced in the fund range by the Legal and General Pre-Retirement Fund.

Default Lifestyle

4.8 The default investment option for members who do not or cannot make an investment decision is a lifestyle strategy. This option invests in the BlackRock (40:60) Global Equity Index Tracker Fund until 20 years from retirement. The assets then gradually switch into the LGIM Diversified Fund between 20 and 10 years from retirement date. In the last 10 years to retirement, the pre-retirement phase, a proportion of the assets switches from the Diversified Growth Fund to the L&G Pre-Retirement Fund and Cash Fund.

4.9 At retirement date the lifestyle strategy aims to be invested in a balanced approach, The Trustees believe that the balanced approach is the most appropriate strategy for the member who has not changed to one of the focussed lifestyles.

4.10 The default investment option has been designed following professional investment advice, taking into account detailed analysis of the demographics and potential risk appetite of the Scheme membership, to ensure it meets the needs of the majority of members.

4.11 The Trustees believe the default investment option is invested in the best interests of the majority of members, because:

- The growth stage of the lifestyle is designed to provide the members with suitable investment return whilst members are far away from retirement, but also manages risk by diversifying the portfolio as the members begin to approach their pre-retirement phase.

- 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.

Focussed Lifestyles

4.12 The three focussed lifestyle profiles all invest in the same funds until 10 years from retirement.

Annuity Lifestyle

4.13 This option is available for members to select who plan to purchase an annuity at retirement. At retirement, this fund predominantly invests in the L&G Pre-Retirement Fund, The Lifestyle maintains a small allocation to the LGIM Diversified Fund, to seek extra investment return close to and beyond retirement date, without adding significant investment risk to the profile. It also invests 25% in the Cash Fund at retirement.

Short-term Drawdown Lifestyle

4.14 This option is available for members to select who plan to take their Account as a cash lump sum over a short period or one off lump sum at retirement. At-retirement, this fund predominantly invests in the Cash Fund, The lifestyle maintains an allocation to the LGIM Diversified Fund, to seek extra investment return close to and beyond retirement date, without adding significant investment risk to the profile.

Long-term Drawdown Lifestyle

4.15 This option is available for members to select who plan to transfer their Account to a drawdown arrangement at retirement. At-retirement, this fund predominantly invests in the LGIM Diversified Fund, The Lifestyle has a small allocation to the L&G Pre-Retirement Fund at retirement and invests 25% in the Cash Fund at retirement.

4.16 The Trustees believe that with these options, members can control the risks identified above. They are satisfied that the spread of assets by type within each pooled fund and the respective pooled funds' policies on investing in individual securities within each type, provides adequate diversification of investments given each fund's objective. The Trustees will receive advice on the suitability of its investments on an ongoing basis.

Expected return on investments

4.17 Over the long term, the Trustee's expectations are:

a For units representing "growth" assets (UK equities, overseas equities and multi-asset or diversified funds), to achieve a real return (in excess of inflation) over the long term. The Trustees consider short-term volatility in equity price behaviour to be acceptable, given the general expectation that over the long term equities will outperform the other major asset classes.

b For units representing annuity price matching assets (UK gilts, for example in Pre-Retirement funds), to achieve a rate of return which is expected to be approximately in line with changes in the cost of providing fixed income annuities.

c For units representing cash, to protect the capital value of the investment and achieve a rate of return in line with money market interest rates.

Fund Range

4.18 The following provides details of the component funds in the fund range managed by the various investment managers, including details of each fund's objective.

4.19 In addition to the funds listed, a single member accesses the Aviva Pacific Basin fund. This fund falls outside of the restricted fund range made available to members by the Trustees. However, the Trustees have allowed the member to retain this investment and monitor the performance of this fund on an ongoing basis.

Aviva

4.20 In line with the objectives and risks above, the following investment options are available through Aviva:

- Stewardship Fund
- Property Cash Fund

4.21 A brief description of the funds is shown below.

Stewardship (Ethical) Fund:

4.22 This fund is managed by Aviva Investors. This fund aims to provide exposure to an ethically screened portfolio of assets in order to produce capital growth. It will mainly be invested in UK equities. It may also invest in other equities, warrants, convertibles, money market instruments and short-term bonds.

Property

4.23 This fund is managed by Schroder Investment Management Limited. The fund aims to generate capital growth and income by investing mainly in UK commercial property. The fund may also invest in UK listed property equities, including real estate investment trusts, shares issued by companies that own, develop or manage direct property and property index certificates. The fund may also invest in money market instruments, short-term bonds, derivatives and in other direct property funds.

Cash Fund

4.24 This fund is managed by Schroder Investment Management Limited. This fund aims to provide short-term liquidity by investing in money market instruments, bonds and cash. It may invest in bonds issued or backed by the UK Government as well as commercial paper, cash and near cash assets such as deposits and certificates of deposit.

BlackRock

4.25 In line with the objectives and risks above, the following passive investment options are available through BlackRock via the Aviva platform:

- UK Equity Index Tracker(40:60) Global Equity Index Tracker
- World (Ex-UK) Equity Index Tracker
- Over 5 Year Index-Linked Gilt Index Tracker
- Emerging Markets Equity Index Tracker

4.26 A brief description of the funds is shown below.

UK Equity Index Tracker

4.27 This fund invests in the shares of UK companies and aims to achieve a return that is consistent with the return of the FTSE All-Share Index. This index is widely regarded as the benchmark for UK pension fund investment in shares of companies in the UK.

(40:60) Global Equity Index Tracker

4.28 This fund invests primarily in equities, both in the UK and overseas markets. This fund has approximately 40% invested in the shares of UK companies. The remaining 60% is invested in overseas companies in the US, Europe (excluding UK) and the Far East. The fund aims to provide returns broadly consistent with the markets in which it invests.

World (Ex-UK) Equity Index Tracker

4.29 This fund invests in the shares of overseas companies (Europe, Japan, Far East, US and Canadian markets) according to market capitalisation weightings. Within each of those markets, the fund aims to generate returns consistent with those of each country's primary share market. The fund aims to achieve a return in line with the FTSE All-World Developed ex-UK Index.

Over 5 Year Index-Linked Gilts Index Tracker

4.30 This fund invests in UK Government index-linked securities (index-linked gilts) that have a maturity period of 5 years or longer. The fund aims to achieve a return consistent with the FTSE UK Gilts Index Linked Over 5 Years Index.

Emerging Markets Equity Index Tracker

4.31 This fund invests in equities of countries defined as emerging markets. This fund's objective is to achieve a return that is consistent with the return of the MSCI Emerging Markets Index.

LGIM

4.32 The following funds are available through LGIM via the Aviva platform.

- LGIM Diversified Fund
- L&G Pre-retirement Fund

4.33 A brief description of the funds follows.

LGIM Diversified

4.34 The investment objective of the Fund is to provide long-term investment growth through exposure to a diversified range of asset classes.

Legal & General (PMC) Pre-retirement

4.35 The fund aims to provide diversified exposure to assets that reflect the investments underlying typical traditional level annuity product. The fund invests in LGIM's index-tracking bond funds to gain exposure to these assets. The fund, however, cannot provide full protection against changes in annuity rates for individual members since these also depend upon a number of other factors (e.g. changes to mortality assumptions). The asset allocation is reviewed quarterly by LGIM's Strategic Investment and Risk Management team and the fund will not take short-term, tactical asset allocation positions.

HSBC

4.36 The Trustees allow access to the HSBC Islamic Global Equity Index Fund via the Aviva platform. This fund is predominantly added to the fund range to provide an investment option compliant with Shariah Law.

HSBC Islamic Global Equity Index

4.37 This fund aims to create long term appreciation of capital through investment in a diversified portfolio of securities as defined by a relevant world index, which meets Islamic investment principles as interpreted and laid down by the Shariah Committee and provided to the Board of Directors of the fund.

Suitability for members of fund range

4.38 The Trustees believe that the equity funds offered (BlackRock passive, stewardship and Shariah Law compliant) are appropriate for members who are not close to retirement. These funds are appropriate for members with the aim of maximising long-term returns (albeit in relation to the risks taken, for example an index-tracking fund would be expected to have a lower expected long-term return than an actively managed fund of the same type, however, restricts the possibility of receiving investment returns which aren't in line with the market returns). These also provide members with opportunities to invest in funds with an ethical focus or based on a set of religious beliefs.

4.39 . The Trustees believe that the diversified fund provides members with the opportunity to seek investment return but allows members the opportunity to diversify their investments to reduce risk (albeit for potentially less return than investing solely in equities).

4.40 The Pre-retirement and Cash funds are aimed primarily at members approaching retirement. The Pre-retirement Fund provides a measure of protection against fluctuations in level annuity prices. The lifestyle investment options use these funds in the pre-retirement phase in different complements, depending on the retirement goal the lifestyle is targeting.

4.41 The following are specialist funds for investment in the self-select range, these are to provide access to more specialist asset classes for the members. These include the Property fund, Emerging Markets fund, and the Islamic Global Equity Index fund.

4.42 Members are free to choose combinations of the above funds for investing contributions. The Trustees welcome and will consider the views and feedback from members when received.

Default Arrangements

4.43 Under the definition of “default arrangement” under The Occupational Pension Scheme (Charges and Governance) Regulations 2015, there are several default arrangements.

4.44 The default Lifestyle option is the default investment option for members who do not make an investment decision

4.45 In addition, the following funds classify as default arrangements, as they have received assets in the past from other funds as part of previous investment changes to the Scheme. These assets would have been moved without member consent:

- Aviva BlackRock (40:60) Global Equity Index Tracker
- Aviva Legal & General Pre-retirement (PMC)
- Aviva BlackRock UK Equity Index Tracker
- Aviva BlackRock World (Ex-UK) Equity Index Tracker

4.46 The Trustees believe that these investments which were transferred without member consent, provided members with a more appropriate investment option at the time of the transfer, and as such the transfers were made in the best interests of the members.

Rights attached to investments

4.47 The Trustees’ policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the manager to exercise those rights. The investment managers provide regular reports to the Trustees detailing their voting activity.

Selection and removal of investment managers and investment options/funds

4.48 With assistance from the Scheme’s advisors, the Trustees monitor the investment managers and the investment options/funds in line with the objectives and risks above. A proportionate approach is taken, given that the majority of funds are passively managed.

Section 5: Additional Voluntary Contributions (AVCs)

5.1 A small number of DB Section members retain investments with Utmost Life & Pensions (previously policies with Equitable Life), Standard Life and Prudential. At the start of 2020, the transfer of Equitable Life's UK policies to Utmost Life & Pensions took place. As a result, assets previously held in the Equitable Life With Profits Fund were converted to unit-linked policies and transferred into the Utmost Secure Cash Fund (as a temporary measure). Following advice from the investment consultant, the assets in the Utmost Secure Cash Fund were gradually moved into the Utmost's Investing by Age Strategy over a six-month period from 1 July 2020. The Utmost Investing by Age Strategy is classed as a new default arrangement, as per the broader definition of a default in the Occupational Pension Scheme (Preservation of Benefit and Charges and Governance) (Amendment) Regulations 2018.

5.2 With the assistance of the Scheme's consultants, these arrangements are reviewed from time to time to ensure that the investment performance achieved is acceptable and the investment profile of the funds remains consistent with the objectives of the Trustees and needs of the members.

Section 6: Social, Environmental or Ethically Responsible Investment & Corporate Governance

6.1 In accordance with the Occupational Pension Schemes (Investment and disclosure (Amendment)) Regulations 2018, the Trustees make the following statements:

6.2 The Trustees have considered the extent to which Environmental, Social and Governance (ESG) factors should be taken into account in the selection, retention and realisation of investments, and their policy in relation to the exercise of the rights (including voting rights) attaching to investments. The Trustee has delegated selection, retention, and realisation of investments to the Scheme's investment managers. The Trustees recognise that a company's long-term financial success is influenced by a range of factors including appropriate management of ESG issues. Whilst it is the Trustees' preference that all companies should be run in a socially responsible way, it takes the view that its primary responsibility is to act in the best financial interest of the members of the Scheme. Therefore, the Trustees' policy is that the extent to which ESG considerations (including climate change) may have a materially financial impact on the portfolio will be taken into account by the investment managers in the exercise of their delegated duties where appropriate. Non-financial matters, such as members' views are not taken into account.

6.3 The Trustees expect its managers to sign up to their local stewardship code, in-keeping with good practice. The Trustees will monitor the activities of all of its managers on a regular basis but appreciates that its applicability may be limited for certain asset classes.

6.4 The Investment Advisor has a dedicated Sustainable Investment resource and a network of subject matter experts. The consideration of ESG issues is fully embedded in the manager recommendation process and is monitored on an ongoing basis. Whilst considering the limitations for each manager, the Investment Advisor expects managers to have sustainability processes to align with the investment risk and return characteristics of the strategy. Where a manager does not comply or improve on their current stance on Sustainable Investment, the manager's position in the portfolio is reviewed.

6.5 TWIM has appointed Hermes EOS to undertake public policy engagement on its behalf as well as company level engagement. The Trustees policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers.

6.6 For the DC Section, as the assets of the Scheme are managed in pooled arrangements, the Trustees accept that the assets are subject to the investment managers' own policies on ESG and on rights attaching to investments. The Trustees are conscious of the changes to market practice in this area and will take this into account when reviewing the shape of the fund range and default fund composition.

6.7 Aviva, the provider for the DC Section, takes an active role in responsible investment, including aligning the business with the United Nations Sustainable Development Goals, among others. Aviva produces an annual summary of environmental, social and governance data from across Aviva's global operations, a Corporate Responsibility Summary and an annual Responsible Investment report. These reports include Aviva's policy on stewardship including engagement with firms and exercise of voting rights.

6.8 More than one ethical fund is directly offered to members of the DC section through the self-select fund range. Details of the investment managers' current corporate governance policy will be supplied to the Trustees as and when required.

Section 7: Buying and Selling Investments

7.1 The responsibility for buying and selling investments has been delegated to the investment managers. The managers have undertaken not to exceed the Trustees' investment powers as set out in the trust deed. As already mentioned, the day to day activities which the investment managers carry out are governed by the Agreement, which is reviewed from time to time to ensure that the operating instructions, guidelines and restrictions remain appropriate.

7.2 In addition, the Scheme's DC investment manager has responsibility for generating cash required for benefit outgo for DC members.

Section 8: Compliance

The Scheme's Statement of Investment Principles and annual report and accounts are available to members on request.

A copy of the Scheme's current Statement of Investment Principles is also supplied to the Sponsoring Employer, the Scheme's investment managers, the Scheme's auditors and the Scheme Actuary.

This Statement of Investment Principles, supersedes all others and adopted by the Trustees of the Flowserve (UK) Limited Pension Scheme on 23 September 2020.

Appendix A: IGG (formerly Myners) principles

In 2000, the Government commissioned Paul Myners to investigate the factors which were distorting the investment decision-making of UK institutions. As a result of this review, it was recommended that UK defined-benefit pension funds adopt investment principles (now called the IGG Principles) as best practice. These investment principles have since been amended and are detailed as follows:

Principle	Best practice guidance
The high level principles represent best practice throughout the industry in investment decision-making and governance. It is expected that trust boards will report against these on a voluntary ‘comply or explain’ basis.	Best practice guidance is intended to help trustees to apply the principles effectively. Trustees are not expected to implement every element of best practice. Rather trustees may use best practice examples where appropriate to help demonstrate whether compliance has been achieved.
Principle 1: Effective decision-making • Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation. • Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	• The board has appropriate skills for, and is run in a way that facilitates, effective decision-making. • There are sufficient internal resources and access to external resources for trustees and Boards to make effective decisions. • It is good practice to have an investment subcommittee, to provide the appropriate focus and skills on investment decision-making. • There is an investment business plan and progress is regularly evaluated. • Consider remuneration of trustees. • Pay particular attention to managing and contracting with external advisers (including advice on strategic asset allocation, investment management and actuarial issues).
Principle 2: Clear objectives • Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme’s liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.	• Benchmarks and objectives are in place for the funding and investment of the scheme. • Fund managers have clear written mandates covering scheme expectations, which include clear time horizons for performance measurement and evaluation. • Trustees consider as appropriate, given the size of fund, a range of asset classes, active or passive management styles and the impact of investment management costs when formulating objectives and mandates. • Consider the strength of the sponsor covenant.
Principle 3: Risk and liabilities • In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. • These include the strength of the	• Trustees have a clear policy on willingness to accept underperformance due to market conditions. • Trustees take into account the risks associated with their liabilities valuation and management. • Trustees analyse factors affecting long-term performance and receive advice on how these impact

sponsor covenant, the risk of sponsor default and longevity risk.

on the scheme and its liabilities.

- Trustees have a legal requirement to establish and operate internal controls.
- Trustees consider whether the investment strategy is consistent with the scheme sponsor's objectives and ability to pay.

Principle 4: Performance assessment

- Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers.
- Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

- There is a formal policy and process for assessing individual performance of trustees and managers.
- Trustees can demonstrate an effective contribution and commitment to the role (for example measured by participation at meetings).
- The chairman addresses the results of the performance evaluation.
- State how performance evaluations have been conducted.
- When selecting external advisers take into account relevant factors, including past performance and price.

Principle 5: Responsible ownership

- Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.
- A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles.
- Trustees should report periodically to members on the discharge of such responsibilities.

- Policies regarding responsible ownership are disclosed to scheme members in the annual report and accounts or in the Statement of Investment Principles.
- Trustees consider the potential for engagement to add value when formulating investment strategy and selecting investment managers.
- Trustees ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company.
- Trustees ensure that investment consultants adopt the ISC's Statement of Practice relating to consultants.

Principle 6: Transparency and reporting

- Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.
- Trustees should provide regular communication to members in the form they consider most appropriate.

Reporting ensures that:

- the scheme operates transparently and enhances accountability to scheme members; and
- best practice provides a basis for the continuing improvement of governance standards.