BW/IP International Limited Pension Plan

Statement of Investment Principles

September 2019

Table of Contents

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Section 1: Introduction

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

"**Employer**" means Flowserve GB Limited

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

"Investment Manager" means Aviva Life & Pensions UK Limited

"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

"**Plan**" means the BW/IP International Limited Pension Plan

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

"**Trustees**" means the Trustees of the BW/IP International Limited Pension Plan

Pensions Acts

1.2 Under the Pensions Act the Trustees are required to prepare a statement of the principles governing investment decisions. This Statement describes the investment principles pursued by the Trustees and fulfils that requirement.

1.3 The Trustees have consulted the Employer on the principles set out in this statement and will consult the Employer on any changes to it. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustees.

1.4 Before drawing up this statement, the Trustees have obtained and considered written advice from the Plan's Investment Consultant. The Trustees will review this document regularly, at least once every three years, and without delay following a significant change in investment policy.

1.5 Before preparing this document the Trustees have considered the requirements of the Pensions Act 1995 concerning diversification of investments and the suitability of investments and the Trustees will continue to 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

1.6 In accordance with the Financial Services and Markets Act 2000, the Trustees will set the general investment policy, but will delegate the responsibility for selection of specific investments to an appointed Investment Manager. The Investment Manager shall provide the skill and expertise necessary to manage the investments of the Plan competently.

1.7 In practice, following investment in the bulk annuity buy-in policy with Aviva Life & Pensions UK Limited, the majority of the Plan's assets are no longer held as separate investments. The Plan holds some cash in the Trustee bank account.

Plan details

1.8 The Plan operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries ("Members").

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 Responsibility for all day-to-day investment decisions is delegated to Aviva Life & Pensions UK Limited through the buy-in policy. The Trustees retain direct responsibility for other investment matters which include:

- Reviewing the content of this Statement regularly, in conjunction with the investment consultants and the Plan Actuary, and modifying it if deemed appropriate.
- Reviewing the investment policy following the results of each actuarial review and/or investment strategy review.
- 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.

In practice, given the investment with Aviva Life & Pensions UK Limited, limited consideration to such matters is now required or expected.

Investment Manager

2.3 Aviva Life & Pensions UK Limited is responsible for meeting its obligations under the buy-in policy for the Plan.

Professional Advisors

2.4 The Trustees agree with the 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 Plan. The Trustees will continue with the current arrangement until this ceases to be appropriate.

Investment Consultant

2.5 The role of the Investment Consultant is to make recommendations or give advice to the Trustee in the following general areas, albeit with limited applicability currently and following the investment with Aviva Life & Pensions UK Limited, with the expectation that other investments will be limited to cash and bank account holdings:

- Participating with the Trustees in reviews of this statement.
- Advising the Trustees, as requested:
  - through consultation with the Plan 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 could affect the interests of the Plan;
  - on how any changes in the investment environment could either present opportunities or problems for the Plan.
- Undertaking project work as requested, including:
  - reviews of asset allocation policy;
  - reviews of the investment manager.
- Advising on the selection of new managers and/or custodians.

Plan Actuary

2.6 The Plan Actuary's responsibilities include:

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

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Section 3: Objectives and long term policy

Objectives

3.1 The Trustees have the following investment objectives:

- To secure a full buy-out of the Plan within the next 6-12 months and then wind up the Plan
- To ensure sufficient cashflow to meet the following:
    - GMP equalisation for transfers which have taken place
    - Data cleanse adjustment premium
    - Costs associated with the wind up

Policy

3.2 In 2013, the Trustees commissioned an investment strategy review to examine and quantify the implications of different investment policies and to identify an appropriate asset allocation given the Plan's particular liabilities. This review specifically addressed the split that should be adopted between return seeking assets and liability matching assets to achieve returns at an acceptable level of risk.

3.3 In 2015 the Trustees commissioned an update to the investment strategy review and agreed to adopt a simple journey plan. The journey plan targeted full funding on a self-sufficiency basis by April 2019, where self-sufficiency is assessed as gilts + 0.2 pa. The investment strategy consisted of a gradual de-risking of assets to 20% corporate bonds and 80% government bonds by 2026. An expense allowance of £0.5m has also been included in the self-sufficiency measure.

3.4 In February 2017, the Trustees agreed to accelerate the agreed de-risking beyond the target asset allocation at 31 December 2016 as the Plan was significantly ahead of the journey plan.

3.5 Following the results of the 6 April 2017 valuation, the Trustees reviewed the investment strategy in order to further accelerate the de-risking process given the strong funding position and the fact that the Plan had reached its funding target on the original journey plan assumptions. The new target allocations aim to capitalise on the favourable funding position and reduce the Plan’s overall investment risk.

3.6 In September 2018, the Trustees agreed to disinvest further in order to continue to minimise any residual investment risk and reduce the volatility of the buy-out deficit. It was agreed that the Plan would almost fully de-risk to a portfolio of 90% matching and 10% in return-seeking (equities) following receipt of buy-out quotations from insurance providers.

3.7 In August 2019, the Trustees purchased a bulk annuity policy (buy-in) with Aviva Life & Pensions UK Limited. This policy covered all members of the Plan. The key target for the Trustees was to secure the Plan’s liabilities at a cost lower than the cost of paying those liabilities through an equivalent investment in a portfolio of gilts. In doing so it provided a more exact match for inflation and interest rate risks compared to the Plan's previous bond holdings and additionally removes longevity risk in respect of these members.

3.8 Following the buy-in with Aviva Life & Pensions UK Limited, the Trustees are targeting full buy-out within a 12 month period. Once the Trustees complete their review of the benefit specification, discretions and a data cleansing exercise, there will be a further transaction to true-up the amount paid and convert the policy to a buy-out.

Additional Voluntary Contributions ("AVCs")

3.9 The Trustees invest members' additional voluntary contributions in the following funds managed by Standard Life.

- Standard Life Managed Pension Fund
- Pension With Profits Fund
- Standard Life FTSE Tracker Pension Fund
- Pension Millennium With Profits Fund

3.10 As the Plan is closed to future service, no new contributions are paid in to these funds.

3.11 With the assistance of the Plan'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 4: Investment Manager Arrangements for the Defined Benefit section

Aviva Life & Pensions UK Limited

4.1 All of the Plan's assets are invested with Aviva Life & Pensions UK Limited in the form of a buy-in policy, with the exception of any cash in excess of the premium value below that is held in the Trustees' bank account. This policy covers all members of the Plan.

Performance objectives

4.2 The aim of the buy-in policy is to wholly cover the benefits due to all members of the Plan.

Fee structures

4.3 The Trustees paid a premium to Aviva Life & Pensions UK Limited of £22.5m in late August 2019, based on membership information at 10 April 2019 and market conditions as at 22 August 2019. There are no ongoing fees in respect of the policy, although there may be an additional premium to pay once the data cleanse has been completed.

Soft Commission

4.4 Soft commission is not relevant for a buy-in policy.

Section 5: Other investment policies

The Trustees also face other requirements relating to investment, be they legislative or considered best practice.

Rights attaching to investments

4.5 The Trustee does not hold assets which require the exercising of rights.

Liquidity, investment and disinvestment

4.6 The Plan's administrator (Towers Watson Limited) assesses the likely benefit outgo on a regular basis and ensures that sufficient cash reserves are available to meet this outgo.

4.7 The Trustees' policy is that there should be sufficient investments in liquid or readily available assets to meet unexpected cashflow requirements in the majority of foreseeable circumstances so that realisation of assets will not disrupt the Plan's overall investment policy. As the buy-in is fully matched, the regular benefit payments will be met by the buy-in policy.

Diversification

4.8 The Plan is exposed to a single counterparty. The strength of the counterparty has been considered and additional statutory provisions exist.

Expected return

4.9 The payments from the buy-in policy will meet the liabilities of the scheme as secured by the buy-in.

Suitability

4.10 The Trustees have taken advice from the Plan's Actuary and Investment Consultant to ensure that the asset allocation specified above is suitable for the Plan.

The Myners Principles

4.11 The Trustees have reviewed their compliance with the Myners Principles (as stated in Appendix A).

4.12 In light of the Myners Code, the Trustees have considered the issue of remuneration for serving Trustees. The Trustees have decided that it is inappropriate to be remunerated for the additional responsibilities as a Trustee of the Plan. Given that the time spent dealing with investment issues for the Plan is generally within the hours of normal employment, the Trustees feel that it is inappropriate to be further compensated for this time.

4.13 The Myners Code suggests that Trustees should formulate and publish an annual business plan. The Trustees do not consider it appropriate to publish a formal business plan, although the Trustees manage an informal business plan that includes investment items which it reviews on a regular basis.

4.14 The Trustees have decided that it is inappropriate for the functions related to investment matters to be delegated to a standing investment sub-committee. In general they believe that the number of Trustees is small enough to provide appropriate focus and that it is important for all Trustees to be involved in all decisions. However, from time to time an ad-hoc sub-committee may be used to facilitate implementation of agreed policy. The relevant expertise is achieved through periodic training and through seeking expert advice when required.

Environmental Social and Governance Considerations

4.15 As permitted by the Pensions Act the Trustees has delegated responsibility for the selection, retention and realisation of investments through the purchase of an annuity policy.

4.16 The Trustees recognises that social, environmental or ethical considerations cannot be taken into account in determining the selection, retention and realisation of investments which form part of the fund operated by Aviva Life & Pensions UK Limited. Accordingly, the Trustees view it as not being appropriate to take active consideration of financial or non-financial matters relating to responsible investment and Environmental Social and Governance (ESG), including on the exercise of any voting rights or stewardship policies.

Realisation of assets

4.17 The contract between the Trustees and Aviva Life & Pensions UK Limited has provision for novation, if required.

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Section 6: Risk management

6.1 The Trustees recognise a number of risks involved in the investment of the assets of the Plan:

- Liquidity risk
  - is measured by the level of cashflow required by the Plan over a specified period;
  - is managed by the Plan's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.
- Counterparty risk
  - is addressed through an appropriate level of scrutiny of Aviva Life & Pensions UK Limited and statutory provisions.

6.2 These measures do not render the investment policy free of risk. Rather, the measures endeavour to balance the need for risk control and the need for assets which are likely to achieve the required performance target.

6.3 The Trustees continue to monitor these risks and maintain a register of risks that the Plan faces, which is reviewed regularly. However, given the full buy-in policy the exposure to these risks is significantly reduced.

Section 7: Compliance

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

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

This Statement of Investment Principles, supersedes all others and was approved on behalf of the Trustees on the date indicated below.

Signed by	**……On behalf of the Trustees………..**
Date	**…………17 October 2019………………..**
Full Name	**BW/IP International Limited Pension Plan**
Position	**Trustee…………………………………….**

Appendix A: IGG (or 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 sponsor covenant, the risk of sponsor default and longevity risk.

- 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 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 chairperson 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.