



DIAGEO
PENSIONS

DIAGEO LIFESTYLE PLAN PLAN REVIEW 2018

Read this update on what's been happening in your Plan this year.

CHAIRMAN'S REPORT



Welcome to the 2018 Diageo Lifestyle Plan Review.

The Diageo Lifestyle Plan (the Plan) has made steady progress over the past year with the assets now standing at nearly £270 million and the total membership of the Plan now more than 5,300.

The increase in the value of the Plan's assets during the year was not sufficient to offset the increase in the assessed value of the Plan's liabilities as a result of the fall in interest rates in the financial markets. As a result there has been a small increase in the funding deficit in the Plan, to £8.6 million which represents a funding level of 97%.

The Trustee has discussed the position with the Company and I am pleased to report that the Company has agreed to increase its contribution rate to the Plan from 16% of pensionable salaries to 24% with effect from 1 July 2018. There is no change to the contributions payable by members.

It is important to the Trustee that its communications help you to understand the Plan and your benefits, and keep you up to date with relevant news and information. The key points are summarised below, with further detail and explanation in the subsequent pages.

Summary of the Plan's accounts

As you will see on page 4, the value of the Plan's net assets increased over the year by 13% to £268.2 million. This was largely due to an increase of £8.3 million in the value the Plan's investments, the receipt of contributions of £25.8 million and investment and other income of £1.8 million. Benefit payments to members and expenses totalled £4.5 million.

Investment review

Information on the investments held by the Plan, together with a summary of the investment strategy and details of past performance, is set out on pages 5 and 6. The overall investment return for the year to 31 December 2017 was 4.0%, as compared with the benchmark return of 4.1%.

The performance is attributable to the significant fall in long-term interest rates which has increased the value of the Plan's leveraged gilt funds.

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CHAIRMAN'S REPORT

Funding update

During the year the funding level of the Plan, being the ratio of assets held to the accrued benefits of members, fell from 99% to 97%, leaving a deficit of £8.6 million.

As has previously been reported, the Trustee is managing the Plan on a prudent basis, but minor fluctuations in the funding level are to be expected. The next formal valuation is due as at 1 January 2019. To mitigate any further deterioration in the funding position of the Plan ahead of the formal valuation, the Company has agreed to increase its contribution rate from 1 July 2018. The Trustee and the Company will consider if further action is required once the results of the valuation are available.

You will find more information about the funding of the Plan in the annual summary funding statement on pages 7 and 8.

Other news

The Company closed the Plan to new employees to the Diageo Group from 1 January 2018. New employees will be offered membership of the new defined contribution scheme, the Diageo Pension Plan (DPP). The Diageo Lifestyle Plan remains open to those employed by the Diageo Group before 1 January 2018 who have not joined the DPP.

The elections to fill three vacancies for member nominated Trustee Directors (MNDs) on the Trustee Board for the Diageo Pension Scheme (DPS) and Diageo Lifestyle Plan (DLP) took place in October 2017. In November 2017, John Cant and Jim Donaldson were appointed from the active population (i.e. those currently in employment with Diageo) and Andrew Lynn was appointed from the pensioner population of the DPS. I would like to welcome our new Trustee Directors to the Board.

You can find further information on these and other matters, including a planned change in the Administrator for the Plan, on pages 10 to 13.

I hope that you find this report interesting and easy to understand. The Trustee welcomes any feedback you may have; please address any comments or questions to the Diageo Pensions Team, whose contact details are shown on page 15. You may also like to visit the Plan website at www.mydiageopension.com; it provides useful information and guidance about the Plan and your pension benefits.

As always, I would like to thank my fellow Trustee Directors, the Diageo Pensions Team and all our advisers for their dedication and work for the Plan and you, its members, throughout the year. On this occasion, I would like to express my thanks to Jim McGhee, who retired as a Trustee Director after 6 years' service.

Finally, I would like to pay tribute to John Nicholls, who has retired as Secretary to the Trustee Board after 14 years' service. John has made a valuation contribution over the years to ensure the effective and efficient running of the Board.



Charles Coase, **Chairman**

SUMMARY OF THE PLAN'S ANNUAL ACCOUNTS TO 31 DECEMBER 2017

Plan Membership

5,333 Members at 31 December 2017

3,004 Active
2,085 Deferred
244 Death benefit only

5,201 Members at 31 December 2016

2,992 Active
1,853 Deferred
356 Death benefit only



Membership analysis at 31 December 2017

56.3% Active
39.1% Deferred
4.6% Death benefit only

Active members – current employees who participate in the Plan.

Deferred members – those members who have either opted out of the Plan or left the Company and still retain a benefit.

Death benefit members – current employees who have decided not to participate in the Plan for pension benefits and are only covered for a lump sum death benefit of one times basic salary.

The Plan does not have any pensioners. At retirement, members withdraw from the Plan the full amount of their Retirement Accounts and use this to secure their benefits on the open market.

Financial summary

For the year ended
31 December 2017

The summary of the accounts shown has been extracted from the Trustee's Annual Report and Plan Financial Statements, which have been given a clean audit report by KPMG LLP. A copy of the formal report is available on the Plan website at www.mydiageopension.com

	£m	£m
Value of the Plan's Net Assets at the start of the year		236.8
Received by the Plan		
Company and member contributions*	25.8	
Investment and other income	1.8	
Income	+	27.6
Paid from the Plan		
Benefits	0.5	
Payments in respect of leavers	2.7	
Administration, investment and life cover costs	1.3	
Expenditure		(4.5)
Change in value of investments		8.3
Value of Plan's Net Assets at the end of the year	=	268.2

*includes contributions payable to the Plan under salary sacrifice arrangements

INVESTMENT REVIEW

Investment Committee

The Investment Committee is appointed by the Trustee and operates under its own terms of reference. Assisted by the Plan's professional investment adviser, Hymans Robertson LLP, the Investment Committee is responsible for advising the Trustee on investment strategy and for appointing and supervising the external investment managers, who are independent of the Trustee and Diageo plc. It reports regularly to the main Trustee Board, making recommendations as appropriate.

The Investment Committee meets on a regular basis throughout the year. It reviews the performance of the Plan overall, as well as the investment returns of the individual managers, and deals with all other investment related issues. Manager monitoring meetings are held with the investment managers on a regular basis and the outcomes are reported back to the Committee.

Investment strategy

The Trustee's overall investment objective is to manage the assets of the Plan prudently to ensure that the benefits promised to members are provided when they fall due.

Based on its investment objective, the Trustee has allocated some 50% of the Plan's assets to investments intended to deliver a secure long-term investment return and 50% intended to reduce volatility and risk in the funding level of the Plan.

The investment strategy takes account of the liability profile of the Plan, together with the level of disclosed surplus or deficit.

The Plan's investment strategy includes 'leveraged' gilt funds to achieve a broad level of liability matching whilst at the same time releasing capital to invest in funds expected to deliver an enhanced return (called "cash plus" funds).

A leveraged gilt fund works by investing in more gilts than the asset value of the fund. For example a two times leveraged fund would have £200 of gilt exposure for every

£100 invested in the fund. This is achieved by the fund entering into repurchase agreements with selected banks, which is effectively a means of borrowing money from the banks to purchase the additional gilts. In return the fund pays the banks' interest for the 'loan'. This is a commonly used risk-managed investment practice for pension schemes such as the Plan and is intended substantially to protect the funding level in the Plan from the impact of movements in market interest and inflation rates.

Insight Investment Management manage the Plan's liability matching assets using their LDI (Liability Driven Investment) solution fund, while Janus Henderson Global Investors (formerly Henderson Global Investors) and M&G Investments manage the cash plus funds. Following a review by the Trustee the assets invested with Janus Henderson were transferred to a new asset backed security mandate with M&G in March 2018.

Periodically, the Trustee transfers assets between the investment managers to rebalance the actual asset allocation to the strategic allocation, as shown in the following table.

INVESTMENT REVIEW

Summary of Investments at 31 December 2017

A summary of the Plan's investments as at 31 December 2017, together with the strategic benchmark asset allocation, is shown below:

Manager	Benchmark Allocation	As at 31 December 2017	
		£m	%
Insight LDI solution fund	50.0%	136.0	50.9%
Janus Henderson Absolute return bonds fund	25.0%	64.5	24.2%
M&G Syndicated senior secured commercial loans fund	25.0%	66.6	24.9%
Total*	100.0%	267.1	100.0%

*As at 31 December 2017, the Plan had other investment assets of £0.4 million, current assets of £1.0 million and current liabilities of £0.3 million, giving total net assets of £268.2 million.

Self-investment

The investment managers are permitted to invest in securities issued by the Company, Diageo plc, to the extent that the security falls within their investment mandate, up to a maximum of 5% of their portfolio. At 31 December 2017, as in 2016, none of the Plan's investment managers directly held any shares in Diageo plc.

Overall investment performance

The investment return achieved by the Plan, and its constituent portfolios, is measured by the custodian, Northern Trust Global Services Limited. The total annualised returns achieved by the Plan, against benchmark were:

Period	1 year to 31 December 2017	3 years to 31 December 2017 (p.a)
Plan return	4.0	8.6
Benchmark	4.1	8.0

FUNDING UPDATE

Annual summary funding statement

The Trustee Directors are pleased to present their Annual Summary Funding Statement as at 1 January 2018.

What is the purpose of this statement?

Its purpose is to explain the latest funding position of the Plan as at 1 January 2018.

How is the Plan funded?

Both the Company and members who are still working for the Company pay contributions into the Plan. The level of members' contributions is set out in the Plan rules and is currently 6% of Pensionable Pay. The Company offers a salary sacrifice arrangement whereby an active member's salary is reduced by the amount of that individual's pension contribution, with the member's pension contributions then paid to the Plan directly by the Company. The Company's contributions meet the balance of the cost required to pay the benefits. The Plan is set up as one fund which the Trustee uses to provide all members' benefits. This fund is held separately from the assets of the Company.

How much does the Company currently pay into the Plan?

The Company pays regular monthly contributions to meet the cost of benefits building up in the future (for members still working for the Company). For the year ended 31 December 2017 contributions were paid at the agreed rate of 16% of Pensionable Pay. From 1 July 2018, the contribution rate paid by the Company increased to 24% of Pensionable Pay.

What was the Plan's ongoing funding position at the most recent interim actuarial valuation?

The results of the interim actuarial review at 1 January 2018 are shown below. This review is based on funding assumptions derived from the same methodology as used for the 2016 valuation, but updated to reflect market conditions at 1 January 2018.

The results show that the funding level has decreased from a deficit of £1.8 million at 1 January 2017 to a deficit of £8.6 million at 1 January 2018.

The reduction in the funding level is largely attributable to the significant fall in long-term interest rates. The favourable impact on the value of the Plan's assets was not sufficient to offset the adverse impact on the value of the Plan's liabilities.

Value of the Plan's assets	£268.2 million
Amount needed to provide benefits	£276.8 million
Deficit	£8.6 million
Funding level	97%

FUNDING UPDATE

What is the funding level on the full solvency position?

The Plan will pay benefits in full as long as it continues. The Trustee is, however, required to advise members of the financial position of the Plan in the unlikely event that the Plan is discontinued and the Company is unable to pay further contributions. If the Plan had been wound up on 1 January 2018, the actuary estimated that the shortfall on this full solvency basis would have been £93.5 million, representing a funding level of 74%.

The full solvency position assumes that benefits would be secured by buying insurance policies. The cost of securing benefits in this way is significantly more expensive than funding for them in the Plan (and therefore the funding level on this basis is significantly lower than on the ongoing basis).

It is important to note that the Pensions Regulator requires trustees to report the full solvency position but this does not mean the Company intends to wind up the Plan. Furthermore, the law now stipulates that the sponsoring employer (in this case Diageo plc) cannot wind up a pension scheme unless it is fully funded on a solvency basis. The only circumstance under which a scheme might be wound up without members receiving their full benefits is when the sponsoring employer becomes insolvent and is unable to give the scheme any further support. However, in such a circumstance, the Pension Protection Fund (PPF) might step in and administer the scheme albeit with some curtailment of benefits (which can be significant above certain threshold levels). Further information about the PPF can be obtained on its website at www.pensionprotectionfund.org.uk.

The funding arrangements for the Plan assume that the Company will continue to meet all its obligations.

OTHER MATTERS

The Pensions Regulator requires that we tell you if there have been any payments from the Plan to the Company in the last twelve months. We can confirm that there have been no such payments.

The Pensions Regulator's powers also allow it to intervene in the running of pension schemes if it believes this is in the members' best interests. For example, it can change the rate at which benefits build up in the future, give directions about working out funding targets or impose contribution rates on pension schemes. It has not needed to use its powers in this way for the Plan.

Where can I get further information?

Further details of the Plan, including copies of the following documents, can be found on the pension website at **www.mydiageopension.com**

- Annual Report and Accounts for the year ended 31 December 2017, which includes the full accounts and membership figures, statements from the Actuary and Auditors, an update on the Plan's investment performance and details of the Trustee and advisers. Much of this information is summarised in this Plan Review.
- Actuarial Valuation – shows the funding position of the Plan as at 1 January 2016.
- Statement of Funding Principles – explains the approach adopted for funding the Plan.
- Schedule of Contributions – shows how much money is being paid into the Plan.
- Statement of Investment Principles – explains how the Trustee invests the Plan's assets.

Copies of these documents are also available from the Diageo Pensions Team, whose contact details can be found on page 15.

PLAN AND OTHER NEWS

General Data Protection Regulation

On 25 May 2018 the General Data Protection Regulation (GDPR) came into law. This marks the biggest shake up of European privacy laws for twenty years. While many aspects of GDPR are similar to current legislation, it strengthens the law and introduces a number of new obligations on the Trustee.

The Trustee has a detailed privacy notice in place providing you with more details about how your information is used following GDPR coming into law. As this annual review is being made available to all members of the Plan, we have taken the opportunity to include a link to the privacy notice below.

Trustee Privacy Notice

You can access the privacy notice on the Plan's website at:

<https://www.mydiageopension.com/scheme/diageo-lifestyle-plan>

Change of Administrator

The Trustee, in consultation with Diageo, has made the decision to outsource its pension administration towards the end of the third quarter of 2018. The decision was made following a detailed review of the different options available with the objective of ensuring a high quality, reliable service to the pension plan members which was cost efficient over the longer term. It is anticipated that the majority of the current Diageo pension administration team will transfer to the new administrator which will help the knowledge retention and the continuation of a good service provision to the members.

There will be no impact on any services provided to members and you will receive more information including updated contact details nearer the date. Please note there is no need for you to take any action.

Government's Autumn Budget

There were no significant changes to the taxation of pensions included within the Autumn Budget. However the Chancellor confirmed that the Lifetime Allowance (LTA) will be increased in line with the Consumer Prices Index to £1,030,000 from 6 April 2018. The LTA is the total amount of savings that benefit from tax relief that you can have across all UK pension schemes in your lifetime. Savings above the lifetime allowance will be subject to additional tax (the LTA charge).

PLAN AND OTHER NEWS

Money Purchase Annual Allowance (MPAA)

For members who have taken advantage of the pension freedoms introduced in 2015, any money purchase pension savings need to take into account the MPAA. HMRC introduced the MPAA to ensure that there are no potential recycling issues with individuals claiming further tax relief on any new contributions made having just taken their pension benefits under the pensions flexibility rules introduced from 6 April 2015. Originally the MPAA was set at £10,000 and the Chancellor confirmed in his 2017 Spring Budget that this would reduce to £4,000 with effect from 6 April 2017; however this was put on hold to allow the Finance Bill 2017 to go through before the general election. Subsequently this amendment has now been introduced and will be applied retrospectively from 6 April 2017.

What is the MPAA?

The Annual Allowance (AA) is the maximum amount of pension savings (including employer's contributions) you can make each year to UK registered pension schemes that benefit from tax relief. This includes all your pension savings in UK registered pension schemes, but excludes your State pension. Any pension savings that you build up above the AA, after taking into account any unused AA from the previous three tax years, will be subject to an AA tax charge.

The MPAA is a reduced annual allowance which **only** applies to individuals who have flexibly accessed pension benefits from a money purchase pension arrangement and limits the future contributions that individuals can make to another money purchase arrangement. Please note that, unlike the AA, the MPAA does not take into account any unused allowance from the previous three tax years.

This means that from the 2017/18 tax year, if an individual has flexibly accessed pension benefits from a money purchase arrangement, the amount of contributions they can make to another money purchase arrangement, or benefits they can build up in a cash balance plan like the Diageo Lifestyle Plan, is limited to £4,000 a year. Any contributions paid to a money purchase plan or benefits built up in a cash balance plan over the £4,000 limit will be subject to a tax charge.

If you have triggered the MPAA, accruing benefits in the DLP counts towards the MPAA.

Where can I get further information?

It is important to emphasise that the MPAA only applies to you if you flexibly access pension benefits from a money purchase pension scheme. If you have flexibly accessed benefits from a money purchase scheme, or are thinking of doing so, you should speak to your IFA. You can find more information on the MPAA in the HMRC's pension tax manual at <https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm056500>

PLAN AND OTHER NEWS

Additional Voluntary Contributions (active members)

Additional Voluntary Contributions (AVCs) are a simple and effective way to provide benefits in addition to your benefit from the Plan. As the name suggests, AVCs are contributions that you choose to pay voluntarily on top of any contributions you are required to pay to the Plan. By paying AVCs you will build up a fund of money in the Diageo Pension Plan (DPP) administered by Scottish Widows which is then used to provide additional benefits when you retire. You have the option on how to invest your money with Scottish Widows. You can elect to start paying AVCs via the Hub or alternatively by contacting the Diageo Pensions Team, whose contact details are shown on page 15.

Ensure your dependants are looked after when you die

As part of your Plan membership, a lump sum benefit becomes payable if you die before retiring. When this happens the Trustee needs to consider all potential beneficiaries and make a decision on who should receive the death benefit.

To ensure the Trustee considers your wishes, you should complete an 'expression of wish' form to let the Trustee know who you want to receive the death benefits. The form is not legally binding (if it were, then any lump sum benefits would be included in your estate and would be taxable) but the Trustee will consider your wishes when it decides who should get the money.

Have your personal circumstances changed?

You may update your expression of wish at any time – and should review it periodically. If you have divorced, married or had children, or if there have been any other changes in your circumstances, you may wish to fill in a new 'expression of wish' form to let the Trustee know of any changes to your wishes.

How do you update your 'expression of wish' form?

You can obtain a copy of the 'expression of wish' form on the Plan website at **<https://www.mydiageopension.com/scheme/diageo-lifestyle-plan>**

Don't forget about any other pension schemes in which you retain benefits, such as those from a previous employment. Make sure that you advise them of any changes in your personal circumstances.

Finally, make sure that your family knows where to find your pension paperwork as they will need it if you die.

PLAN AND OTHER NEWS

Pension scams

The Pensions Regulator has asked Trustees to warn members about pension scams which unfortunately are on the increase.

A pension scam is when someone tries to con you out of your pension savings and will often start by someone contacting you unexpectedly about:

- an investment or other business opportunity that you've not spoken to them about before;
- taking your pension money before you're 55; and
- the ways that you can invest your pension money.

They have also released new online messaging via Facebook, Twitter and YouTube urging members to keep their eyes and ears open, watching out for scam sites that dress themselves up with anti-scam messaging to pose as legitimate businesses and also to hang up immediately on pension cold callers.

Ten steps to protect your pension

If you're thinking about how to invest your retirement savings, follow these ten steps to protect your pension.

1. Be wary of cold calls and unsolicited texts or emails

Scammers will often claim they're from Pension Wise or other government-backed bodies. These organisations would never phone or text to offer a pension review.

2. Check everything for yourself

People have fallen for scams because they'd been 'recommended by a friend'. Do your homework, even if you consider yourself to be financially savvy – false confidence can lead to getting stung.

3. Make sure your adviser is on the Financial Conduct Authority (FCA) approved register

Pension scammers may pose as financial advisers. Check to make sure yours is registered on www.fca.org.uk.

4. Check the FCA's list of known scams

Visit <https://www.fca.org.uk/scamsmart> to see if the deal you're being offered is a known scam.

5. Steer clear of overseas investment deals

Well-known scam types include unregulated investment in a hotel, vineyard or other overseas opportunities, and where your money is all in one place – and therefore more at risk.

6. Don't fall for 'guaranteed' returns or professional looking websites or brochures

You can never guarantee returns on an investment, and anyone can create a smart website or brochure these days. Question everything, however credible it sounds or looks.

7. Don't be rushed into a decision

Scammers will try to pressure you with 'time limited offers' or send a courier to your door to wait while you sign documents. Take your time to make all the checks you need – even if this means turning down an 'amazing' deal.

8. If you're aged 50 or over and have a DC pension, talk to Pension Wise

Pension Wise is there to help you investigate your retirement options. Visit the www.pensionwise.gov.uk/ for more information (and to check what kind of pension you have).

9. Ask the Pensions Advisory Service for help if you have doubts

You can call them on **0300 123 1047** or visit www.pensionsadvisoryservice.org.uk for free pensions advice and information.

10. Contact your provider and call Action Fraud if you've already signed and think you've been scammed

If you've already signed something you're now unsure about, call Action Fraud on **0300 123 2040** and contact your pension provider immediately. They may be able to stop a transfer that hasn't taken place yet.

THE TRUSTEE

The Trustee of the Plan is Diageo Pension Trust Limited. There are currently 12 Trustee Directors of the Trustee Company who have the responsibility for ensuring that the Plan is run in accordance with its Trust Deed and Rules.

Half of the Directors have been elected by employee or pensioner members. The Directors have regular training in connection with their role.

Employer nominated	
Charles Coase, Chairman	
Trustee nominated	Member nominated
Sharon Fennessy ³	John Cant (appointed 21 November 2017)
Mena Hatchman ^{1 2}	Jim Donaldson (appointed 21 November 2017)
David Heginbottom ³	Carolyn Isaacs ^{1 3}
Catherine James ^{2 3}	Andrew Lynn ^{1 2} (appointed 21 November 2017)
Caroline Wehrle ^{1 3}	Liz Paxton ²
	Ian Shaw ^{2 3}
	Jim McGhee (retired 21 November 2017)
1 Audit Committee member	2 Discretions Committee member
	3 Investment Committee member

The main committees of the Trustee Board are the Audit, Discretions and Investment Committees, the members of which are identified above. The roles of the Audit and Discretions Committees are summarised below. Further information on the work of the Investment Committee is provided on page 5.

Audit Committee

The Audit Committee oversees the Plan's governance, the services and internal controls of the Plan's administrator and other advisors, and the integrity of the financial statements, including specific areas of judgement and risk. The Audit Committee makes recommendations to the Trustee as appropriate.

Discretions Committee

The Discretions Committee is responsible for exercising on behalf of the Trustee certain discretions under the Rules of the Plan.

Secretary	
John Nicholls (retired 31 March 2018). The Trustee is considering the appointment of the Secretary	
Advisers to the Trustee	
Actuary	James Miller – Aon Hewitt
Administrator	Diageo Pensions Team
Auditor	KPMG LLP
Bank	Royal Bank of Scotland plc
Custodian	Northern Trust Global Services Limited
Investment Adviser	Hymans Robertson LLP
Solicitor	Linklaters LLP

WHO TO CONTACT

If you would like further pension information, you can contact the Pensions Team in the following ways:

 **Email:** pensions@diageo.com

 **Telephone:** 0131 519 2100

 **Website:** www.mydiageopension.com

 **Writing:** Pensions Team
Diageo plc
Edinburgh Park
5 Lochside Way
Edinburgh
EH12 9DT

When contacting the Pensions Team, it is helpful if you provide your full name, address and telephone number, date of birth and your National Insurance number.

If you have a complaint, please raise it with the Pension Administration Manager, at the above address. If you are dissatisfied with the decision of the Pension Administration Manager, please ask for details of the Internal Disputes Resolution Procedure.

Please note that any queries related to your employment should be referred to your line manager or local Human Resources Manager.

Keep in touch

It is important that you notify us of any change of address in writing, even after you leave Diageo, so that we can ensure that you receive your benefits when they become due.

It is also important that you complete, and keep up to date, your 'expression of wish' form which can be found on the Plan website www.mydiageopension.com. The Trustee will take into account any wishes you have expressed in the event of any death benefits becoming payable.

