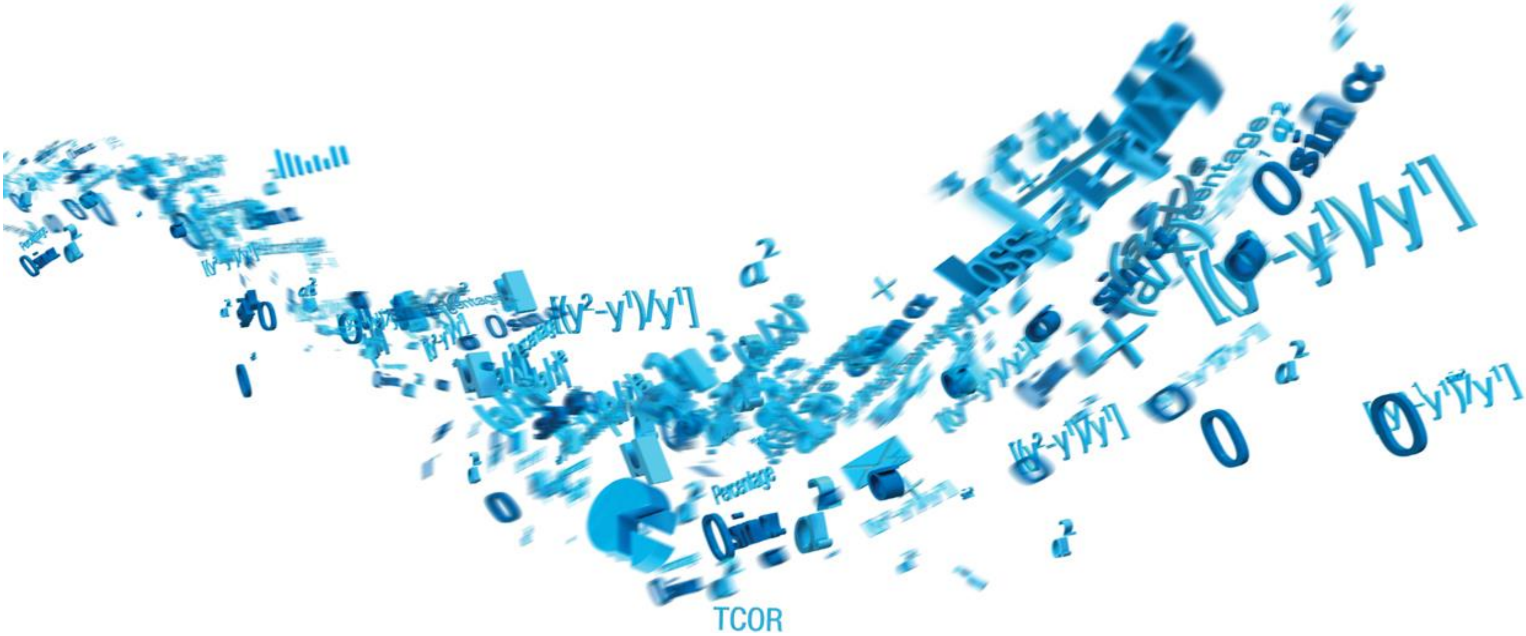

Actuarial report as at 1 January 2021

Diageo Lifestyle Plan

Prepared for	**The Directors of the Diageo Pension Trust Limited**
Prepared by	**James Miller FIA**
Date	**26 March 2021**
Signed	

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Scheme Actuary
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Executive Summary

The purpose of this report is to provide an approximate update of the assets and technical provisions of the Diageo Lifestyle Plan (the "Plan") as at 1 January 2021. This update is required by law.

The results show that the funding position of the Plan has deteriorated from a funding deficit of £1.2M at the 1 January 2019 valuation date to a funding deficit of £14.6M at 1 January 2021.

Over 2020 the liabilities increased significantly as interest rates fell. Although the Plan's LDI assets also increased significantly, which mitigated this to a large extent, the overall asset increase over 2020 was less than the liability increase.

At the last valuation, it was agreed for the Company to pay contributions slightly above the expected cost of accrual (30% vs 27.3%). The cost of accrual of benefits has increased significantly since the last valuation. The actual contributions are now below the cost of accrual.

This update is intended to be used by the Trustee as the basis of the summary funding statement provided to members.

Actuarial report as at 1 January 2021

Diageo Lifestyle Plan

Contents

Purpose

This report was commissioned by the Trustee; its purpose is to provide an approximate update of the assets and technical provisions of the Diageo Lifestyle Plan (the "Plan") on a "going concern" basis as at 1 January 2021. It is required by law.

In addition to the minimum legal requirements, this report also includes an approximate update of the Plan's solvency estimate.

You are the addressees and users of this report. It is intended to be:

- Read in conjunction with my report dated 1 August 2019 on the valuation of the Plan as at 1 January 2019.
- Used to form the basis of the summary funding statement provided to members.

Before making any decisions you should:

- Contact me so that I can provide any additional information which is needed in connection with those decisions.
- Bear in mind that this report focuses on the Plan's estimated funding position at 1 January 2021. The Plan's finances fluctuate over time and if you are reading this report some time after its effective date, the funding position could have changed significantly.

Further information on the scope of this report and compliance matters relating to it can be found in Appendix 1 and the Report Framework appendix.

The figures shown in this report are calculated by making assumptions about the future including that the Company will continue to support the Plan. Experience will vary from the assumptions made and will affect the results of the next valuation and ultimately the cost of providing the benefits.

Terminology

Technical provisions

The technical provisions represent the funding target for a scheme agreed as part of the actuarial valuation.

Solvency estimate

The solvency estimate represents an estimate of the cost of buying out a scheme's benefits with an insurance company.

Summary funding statement

A summary of a scheme's funding position that is required by law and must be provided annually to scheme members.

Calculation method and data

The Plan's funding position at 1 January 2021 has been determined using methodology and assumptions that are consistent with those used for the valuation as at 1 January 2019. This method and these assumptions are set out in the Trustee's Statement of Funding Principles ("SFP") dated 1 August 2019.

As this update is based on the SFP dated 1 August 2019, it does not allow for any changes in the following:

- Investment policy
- Company covenant

that might have occurred since the SFP was signed off.

For the purpose of this update, I have used the audited valuation of the Plan's assets of £433.3M at 1 January 2021. This was provided to me by Capita in the Trustee Report and Accounts. The corresponding value of the assets was £295.0M at 1 January 2019. The main reasons for the increase have been the additional contributions to support further benefit accrual and positive returns on the Plan's assets.

Terminology:

Statement of funding principles (SFP)

A statement of the Trustee's policy for calculating and securing the technical provisions of the scheme, including the period over which any deficit should be dealt with.

Company covenant

The willingness and ability of the company to continue contributions to the scheme and to make good any current and future shortfalls.

Calculation method and data

Significant changes

I am not aware of any changes to the Plan's past service benefits. The Plan closed to new employees from 1 January 2018, although existing employees at that date can still join the Plan under certain circumstances.

Please let me know if you are aware of any changes that could have resulted in significant changes to the Plan's liabilities.

Reliability of information

Summaries of the information we have received are included in Appendices 2, 3 and 4.

I have carried out some general checks to satisfy myself that the information provided by the Capita administration team for this update is sensible compared with that shown in the Plan's Report & Accounts. I can confirm that I am satisfied with the data provided.

The results in my report rely entirely on the accuracy of the information supplied. If you believe the data I have used may be incomplete or inaccurate, please let me know.

Further information

Further information about the approach to funding, the calculation of the funding measures and the derivation of the assumptions is contained in my report on the valuation at 1 January 2019.

Assumptions

The SFP sets out the methodology for deriving the financial assumptions from prevailing gilt yield curves at the date of calculation.

Financial assumptions

The financial assumptions for this update are consistent with the SFP and based on market conditions on 31 December 2020. A summary of the main financial assumptions at 1 January 2021 together with the corresponding assumptions used for the valuation at 1 January 2019 are shown below.

Demographic assumptions

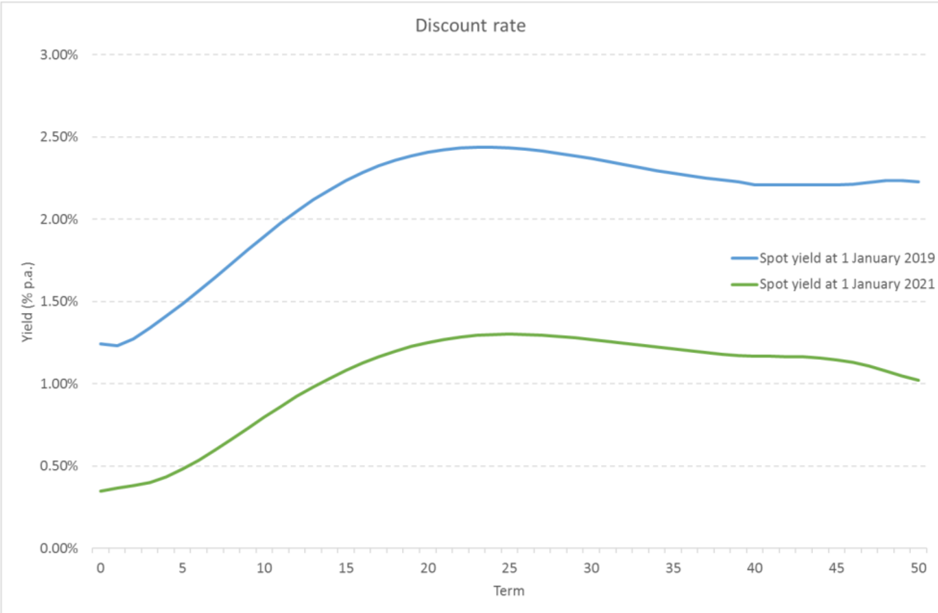
The demographic assumptions are unchanged from those used for the valuation at 1 January 2019, as set out in the SFP.

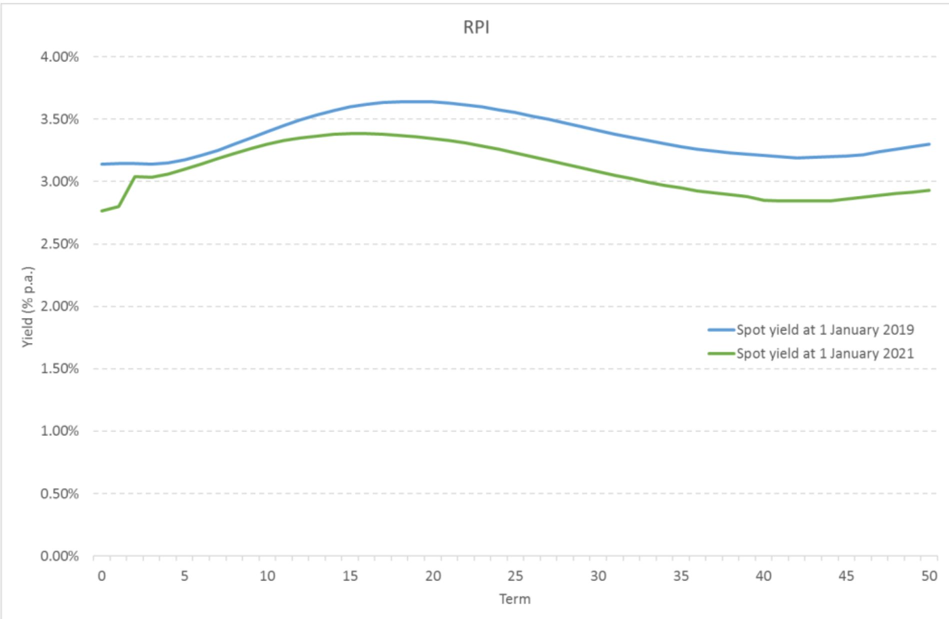
Assumption	1 January 2019	1 January 2020	1 January 2021
Discount rate	UK Bank of England Fixed Interest Gilt yield curve plus 0.5%		
RPI inflation	RPI Gilt curve implied by difference between yield on conventional and index-linked UK Government bonds		
CPI inflation	RPI inflation less 0.75% p.a.		RPI inflation less 0.30% p.a.
Pre-retirement increases to retirement balances accrued before 1 July 2012	This is built from the RPI inflation assumption, an assumption about how much inflation varies each year, and the interaction of inflation with a maximum increase of 5% p.a. and a minimum increase of 0% p.a.		
Pre-retirement increases to retirement balances accrued after 30 June 2012	This is built from the CPI inflation assumption, an assumption about how much inflation varies each year, and the interaction of inflation with a maximum increase of 5% p.a. and a minimum increase of 0% p.a.		

Assumptions (continued)

The following spot yields have been used for the technical provisions calculations as at 1 January 2019 and 1 January 2021, calculated using the methodology set out in the SFP:

Aon yield curves (spot rates)





Assumptions for solvency estimate

The financial assumptions I have used to update the solvency estimate reflect market conditions on 31 December 2020 and the changes in the buy-out market since 1 January 2019.

The table below shows the main assumptions used in calculating the solvency estimate, where these are different to those used for the technical provisions:

Assumption	1 January 2019	1 January 2020	1 January 2021
Discount rate	Aon Bulk Annuity Market Monitor yield curve for non-pensioners, which is constructed from swap and UK corporate bond market curves		
RPI inflation	Term-dependent rates derived from RPI swap markets		
CPI inflation	RPI inflation less 0.60% p.a.		
Withdrawals	All members assumed to immediately withdraw from service with entitlement to deferred benefits		
Discretionary Benefits	No allowance		
Expenses of winding up	Allowance made		

Further information on the assumptions used for the solvency estimate is contained in my report on the valuation at 1 January 2019.

Caution

The approximate update of the solvency estimate contained in this report does not constitute the statutory estimate of solvency required by law. See Appendix 1 for further details.

Results and Commentary

The results of the approximate update of the funding position and cost of future benefit accrual for the Plan at 1 January 2021 are shown below alongside the results at 1 January 2019.

	1 January 2019	1 January 2020	1 January 2021
Value of technical provisions (£M)	296.2	348.2	447.8
Market value of assets (£M)	295.0	356.6	433.3
Funding surplus (£M)	(1.2)	8.4	(14.6)
Funding ratio	100%	102%	97%
Estimated cost of future benefit accrual*	27.3%	29.2%	34.9%
Solvency surplus / (deficit) (£M)	(89.3)	(95.5)	(102.5)
Solvency ratio	77%	79%	81%

* This is the total cost of future benefit accrual expressed as a percentage of pensionable salaries; members contribute 6% of salary, mostly through a salary sacrifice arrangement.

Over 2020 the liabilities increased significantly as interest rates fell. This was slightly offset by the Plan's LDI assets which also increased significantly, the overall asset increase over 2020 was less than the liability increase.

At the last valuation, it was agreed for the Company to pay contributions slightly above the expected cost of accrual (30% vs 27.3%). The cost of accrual of benefits has increased significantly since the last valuation. The actual contributions are now below the cost of accrual.

The charts below shows the approximate movement in the assets and technical provisions since the 1 January 2019 valuation:

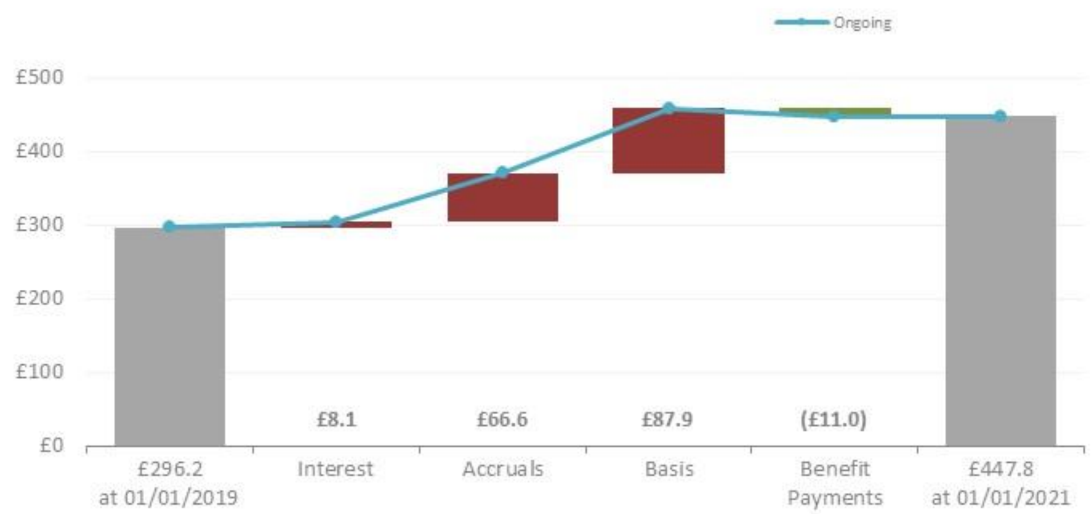
Reasons for change since 1 January 2019

Asset attribution

Values in £1,000,000

Liability attribution

Values in £1,000,000



Note that the estimated solvency deficit has deteriorated since the 1 January 2019 valuation. This reflects the cost of accrual on a solvency basis being greater than the contributions being paid.

Trustee actions

You are required to make this report available to the Company within seven days of receiving it and to members on request, within two months of the request.

Summary funding statement

You are also required to issue a summary funding statement to all members of the Plan. This should be issued by 1 April 2022, although in practice the Pensions Regulator expects the statement to be issued to members without undue delay.

Other significant changes

Please let me know if you are aware of any changes since the valuation at 1 January 2019 that could have resulted in significant changes to the Plan's liabilities.

Appendix 1: Scope

This report is required by and has been produced in accordance with section 224 of the Pensions Act 2004 ("the Act") and Regulation 7 of the Occupational Pension Schemes (Scheme Funding) regulations 2005 ("the Regulations").

The figures in this report are consistent with, and update the results of, the Plan's latest actuarial valuation at 1 January 2019. The assumptions used have been modified only insofar as is necessary to maintain consistency with the valuation, reflecting the change in the effective date and in the relevant market conditions, as envisaged in the Trustee's SFP.

The technical provisions represent the funding target for a scheme agreed as part of the actuarial valuation. The values placed on the technical provisions are higher than neutral estimates of the liabilities (i.e. those with a 50% chance of overstating or understating the true cost).

The solvency estimate is the position if:

- The Plan was discontinued at the calculation date
- Member benefits were crystallised and, for active members, were based on their retirement accounts at the calculation date
- Discretionary benefits were suspended permanently
- The assets were used to buy deferred annuities from an insurance company, with an extra margin needed to cover the expenses of shutting down the Plan

The updated solvency estimate does not constitute the statutory estimate of solvency required for the purpose of Regulation 7(4)(b) of The Occupational Pension Schemes (Scheme Funding) Regulations 2005 ("The Regulations").

Appendix 2: Assets

The Plan's assets are held in a trust, which is a legally separate entity to the Company.

The Plan accounts for the year ended 31 December 2020 show its assets as £433.3M, invested as follows:

Asset type	Market value (£M)	% of Total
Insight liquidity fund	7.3	1.7%
Insight LDI solution fund	223.6	51.6%
M&G loan fund	100.1	23.1%
M&G ABS fund	100.1	23.1%
Cash and net current assets	2.2	0.5%
Total	**433.3**	**100.0%**

Appendix 3: Benefits

Summary

The Plan is a revalued career average 'defined benefit' pension scheme.

For each year of active membership the Trustee credits to each member retirement account 25% of their pensionable pay over that period. Whilst in service, the retirement account is then revalued as follows:

- Benefits accrued to a current active member's retirement account up to 30 June 2012 will increase in the future in line with the rise in RPI up to 5% each year subject to a floor of 0% each year
- Benefits accrued to a current active member's retirement account from 1 July 2012 will increase in the future in line with the rise in CPI up to 5% each year subject to a floor of 0% each year

At retirement, the Trustee will use the proceeds of the member's retirement account to provide retirement benefits, as requested by the member. These benefits will consist of a tax free lump sum and/or a pension purchased from an Insurance Company.

Normal Retirement Age

65

Pensionable Pay

Pensionable Pay means the Member's basic salary from the Employers plus any regular emoluments specifically stated to be pensionable in the Member's contract of employment or as otherwise determined by the Company, subject to an overall maximum amount of £160,000 a year (or such other amount as the Company shall determine from time to time and notify to Members and the Trustee).

Member Contributions

- 0% of Pensionable Pay for members participating in the Salary Exchange arrangement
- 6% of Pensionable Pay for members not participating in the Salary Exchange arrangement

Early Retirement Pension

Members may retire after the age of 55 with Company consent. The Trustee will use the member's retirement account to provide benefits as described in the above summary. However, the amount of the retirement account will be adjusted to allow for early payment.

Incapacity and Ill Health Retirement

A member who leaves service prior to their normal retirement date solely because of ill health may receive their retirement benefits immediately. The retirement account would be calculated as the higher of:

- Its amount immediately before the date of leaving (without reduction for early payment)
- 6 times members Pensionable Pay (where Pensionable Pay is not subject to the overall maximum amount) over the 12 months ending on the last day of the previous benefit year

Leaving Service

Members with less than three months of pensionable service are entitled to a return of their contributions.

Members with between three months and two years of pensionable service are entitled to either a return of their contributions, or a cash transfer sum payment.

Otherwise (for members with at least two years of pensionable service), the Trustee will provide retirement benefits at the member's normal retirement date, as described in the above summary. The member's retirement account will be increased from the date of leaving to the date of payment in line with statutory revaluations.

Death Benefits

If a member dies in service, a lump sum will be paid (at the Trustee's discretion) to one or more of the immediate dependants. The lump sum will be equal to the members retirement account, which will be calculated as the higher of:

- Its amount immediately before date of death (without reduction for early payment).
- 6 times the member's Pensionable Pay (where Pensionable Pay is not subject to the overall maximum amount) over the 12 months ending on the last day of the previous benefit year.

If a member dies after leaving service and still has preserved benefits under the Plan, a lump sum will be paid to one or more of the immediate dependants, equal to the member's retirement account immediately before date of death.

Appendix 4: Membership Data

Active members	Number	Average age	Total retirement balance (£000)	Total Pensionable Pay (£000 p.a.)*	Average Pensionable Pay (£ p.a.)*
2021	*2,469*	*43*	*197,776*	*107,931*	*44,018*
2020	*2,641*	*42*	*184,622*	*115,100*	*43,764*
2019	*2,829*	*41*	*167,355*	*119,331*	*41,988*

*Excludes localised members

Deferred pensioners	Number	Average age	Total retirement balance (£000)	Average retirement balance (£)
2021	*2,540*	*43*	*124,226*	*48,908*
2020	*2,440*	*41*	*111,315*	*45,621*
2019	*2,329*	*41*	*100,191*	*43,019*

Report Framework

This report has been prepared in accordance with the framework below.

TAS compliant

This report, and the work relating to it, complies with ‘Technical Actuarial Standard 100: Principles for Technical Actuarial Work’ (‘TAS 100’) and 'Technical Actuarial Standard 300: Pensions’ (‘TAS 300’).

The compliance is on the basis that the Directors of the Diageo Pension Trust Limited are the addressees and the only users and that the report is only to be used for the intended purpose. If you intend to make any other decisions after reviewing this report, please let me know and I will consider what further information I need to provide to help you make those decisions.

The report has been prepared under the terms of the Scheme Actuary Agreement between the Trustee and me on the understanding that it is solely for the benefit of the addressees.

This report should be read in conjunction with:

- My report dated 1 August 2019 on the valuation at 1 January 2019
- The Trustee's SFP dated 1 August 2019

If you require further copies of any of these documents, please let me know.