



DIAGEO
PENSIONS

DIAGEO LIFESTYLE PLAN PLAN REVIEW 2019

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

Chairman’s Report	3	Plan and Other News	10
Actuarial Valuation	5	The Trustee	12
Summary of the Plan's Annual Accounts	7	Who to Contact	14
Investment Review	8		

CHAIRMAN'S REPORT



Welcome to the 2019 Diageo Lifestyle Plan Review.

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. Overall, the triennial valuation of the Plan as at 1 January 2019 and the Plan accounts for 2018 show that the Plan is in good shape. The key points from these documents are summarised below, with further detail and explanation in the subsequent pages.

Actuarial valuation as at 1 January 2019

The purpose of an actuarial valuation is to review the financial health of the Plan and, in particular, to estimate how much money the Plan needs in order to pay the pension benefits members have already earned and to determine the contributions the Plan needs to provide for benefits building up in the future.

We carry out a full valuation every three years, with annual updates in between. In the full valuation we review all of the assumptions used in the valuation, such as those relating to the longevity of members or future inflation and investment returns, and make changes as appropriate, whereas the annual update reflects simply changes in Plan membership, asset values and market conditions without any update in the assumptions. The previous full valuation was carried out as at 1 January 2016.

The valuation as at 1 January 2019 shows a deficit of £1 million. To put this another way, the Plan's assets of £295 million cover just under 100% of the value placed on the accrued benefits of members of £296 million.

As previously reported, the Company increased its contribution rate to the Plan from 16% of pensionable salaries to 24% with effect from 1 July 2018. The Company has agreed to maintain this rate, which is a little higher than that determined by the valuation as at 1 January 2019 to cover the cost of benefits being accrued by members, such that the deficit shown by the valuation should be eliminated by mid-2019, with a small surplus building up thereafter. There is no change to the contributions payable by members.

You will find more information on the valuation on pages 5 to 6.

Summary of the Plan's accounts for the year ended 31 December 2018

As you will see on page 7, the value of the Plan's net assets increased by almost 10% to £295.0 million. This was largely due to the receipt of contributions of £31.3 million and investment and other income of £1.5 million. Benefit payments to members and expenses totalled £6.0 million.

CHAIRMAN'S REPORT

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 8 and 9. The overall investment return for the year to 31 December 2018 was 0.1%, as compared with the benchmark return of 0.8%. Periods of under-performance vs benchmark are to be expected from time to time. The annualised investment return over three years is 8.9%, in line with the benchmark. The Trustee has reviewed the results with the relevant investment managers and, after taking advice from our investment adviser, considers that the investment strategy of the Plan remains appropriate.

Change to the Plan Administrator

As you will know, the Trustee appointed Capita as Administrator of the Plan as of 10 September 2018, in succession to the Diageo Pensions Team. The Trustee is pleased to note that the service from the Administrator to members has continued at a high standard.

Capita have now launched its online portal, Hartlink Online, that allows real-time access to your pension record, and enables you to:

- › view your current Retirement Account
- › access other information regarding your benefits including leaving service options and death benefits
- › view your annual benefit statements
- › obtain retirement illustrations and transfer values
- › access information regarding your benefits in relation to the Annual Allowance
- › update your nomination details using the online Expression of Wish form
- › access a wide range of communication materials.

Feedback that we have received from members who have used the website is very positive. If you have not done so already, do please visit the website at <https://www.hartlinkonline.co.uk/diageo>. If you need a reminder of how to log on to the website or other help with the website, please contact the Plan Administrator (for whom contact details are provided on page 14).

Other matters

You can find some general pensions news and information on other matters which affect members on pages 10 to 11.

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 Plan Administrator, whose contact details are shown on page XX.

As always, I would like to thank my fellow Trustee Directors, the administration team and all our advisers for their dedication and work for the Plan and you, its members, throughout the year.



Charles Coase, **Chairman**

ACTUARIAL VALUATION AS AT 1 JANUARY 2019

The actuarial valuation process

The purpose of the actuarial valuation process is to review the financial health of the Plan. It is carried out at least once every three years. The aim of the valuation is:

- › to estimate how much money the Plan needs in order to pay the pension benefits which members have already earned; and
- › to determine the contributions the Plan needs to provide for benefits building up in the future.

The funding target

Under the Pensions Act 2004, the Trustee is responsible for setting a funding target for the Plan, known as Technical Provisions, being the amount of money that the Plan needs to hold in order to provide the pension benefits that members have already earned.

Setting the assumptions

It is not possible to predict what will happen in the future with certainty, but it is possible, by using sensible assumptions, to estimate how much money is needed now to provide for those benefits. The Trustee takes advice from the Plan Actuary on a number of assumptions about what will happen in the future. In particular, the Trustee considers the following principal assumptions:

- › how long people might live – taking account of the actual mortality experience of the Plan, the general pattern of mortality in the UK and estimates of how mortality might improve in future;
- › what future inflation might be – based largely on the expectations of financial markets; and
- › what returns the Plan might be able to earn on its investments.

As part of the process, the Trustee consults with the Company on these assumptions. The basis of the Technical Provisions, including details of the assumptions, is recorded in a formal document called the Statement of Funding Principles, which is approved by the Trustee and the Company.

The funding level

The Plan Actuary will compare the Technical Provisions with the market value of the Plan's net assets to get the funding level, which is expressed as a percentage. A funding level of 100% means that the value of the net assets is equal to the Technical Provisions. A funding level of less than 100% means that the value of the assets is less than the Technical Provisions (i.e. there is a funding deficit). If a deficit is revealed, the Trustee and the Company must agree a recovery plan to eliminate the deficit.

The Plan Actuary helps the Trustee to consider the funding target in detail, check the Plan's position in relation to the target and identify the actions required to address any shortfall.

Results of the actuarial valuation at 1 January 2019

The actuarial valuation of the Plan on 1 January 2019 showed that the funding position was as follows:

The value of the Technical Provisions (liabilities)	£296m
The value of the Plan's net assets	£295m
Deficit	£(1)m
Funding level	99.6%

The funding level of just under 100% compares with a funding level of 97% in the interim actuarial review at 1 January 2018 and 103% at the last formal actuarial valuation at 1 January 2016.

The Trustee's objective is to keep the Plan fully funded over time, as assessed on a prudent basis. The Trustee has agreed with the Company that it will make contributions to the Plan which should bring it to a fully funded position by mid-2019 and allow a small surplus to build up thereafter.

ACTUARIAL VALUATION AS AT 1 JANUARY 2019

Company covenant

As required by legislation, the Trustee has conducted a thorough review of the Company's ability and willingness to fund the benefits that have accrued in the Plan, known as the "Company covenant". The Trustee believes that the Company covenant is strong. The Trustee will continue to monitor the covenant of the Company.

What is the funding level on the full solvency position?

The Trustee is required to advise members of the financial position of the Plan in the unlikely event that the Plan discontinued and the Company was unable to pay the benefits due. If the Plan had been wound up on 1 January 2019, the Actuary estimated that the shortfall on the full solvency basis would have been some £(89) million, equal to a funding level of 77%.

The full solvency position assumes that benefits would be secured by buying insurance policies; the cost of securing pensions in this way is significantly more expensive than funding them in the Plan and this is the principal reason for the lower funding level.

It is important to understand that the Pensions Regulator requires us to report the full solvency position but this does not mean that 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 funded on a full solvency basis. The only circumstances under which a scheme might be wound up without members receiving their full accrued benefits is if the sponsoring employer becomes insolvent and is unable to give the scheme any further support. In such a circumstance, the Pension Protection Fund (PPF) might step in and administer the scheme, but with some curtailment of benefits. 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.

Contributions to cover the cost of future service pension benefits for active members

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 six months ending 30 June 2018 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. Employees continue to pay contributions at the rate of 6%.

The level of contributions being paid by the Company since 1 January 2019 is a little higher than that determined by the valuation as at that date to cover the cost of benefits being accrued by members, such that the deficit at 1 January 2019 should be eliminated by mid-2019, with a small surplus building up thereafter.

The Pensions Regulator

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?

Following the appointment of Capita as the Administrator, the information in relation to the Plan has been moved to a new pensions website at <https://www.hartlinkonline.co.uk/diageo>.

The following documents can be found by accessing the above link or by requesting copies from the Administrator, for whom contact details can be found on page 14.

- ▶ Annual Report and Accounts for the year ended 31 December 2018, 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 2019.
- ▶ 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.

SUMMARY OF THE PLAN'S ANNUAL ACCOUNTS TO 31 DECEMBER 2018

Plan Membership

5,221 Members at 31 December 2018

2,842 Active
2,329 Deferred
50 Death benefit only

5,333 Members at 31 December 2017

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



Membership analysis
at 31 December 2018

54.4% Active
44.6% Deferred
1% 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 2018

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.

	£m	£m
Value of the Plan's Net Assets at the start of the year		268.2
Received by the Plan		
Company and member contributions*	31.3	
Investment and other income	3.1	
Income	+	34.4
Paid from the Plan		
Benefits	1.0	
Payments in respect of leavers	3.7	
Administration, investment and life cover costs	1.3	
Expenditure		(6.0)
Change in value of investments		(1.6)
Value of Plan's Net Assets at the end of the year	=	295.0

*includes contributions payable to the Plan by the Company 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.

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

INVESTMENT REVIEW

Summary of Investments at 31 December 2018

A summary of the Plan's investments as at 31 December 2018, together with the strategic benchmark asset allocation, is shown below.

Manager	Benchmark Allocation	As at 31 December 2018	
		£m	%
Insight LDI solution fund	50.0%	128.8	43.9%
Insight Liquidity fund	-	19.4	6.6%
M&G Syndicated senior secured commercial loans fund	25.0%	72.5	24.7%
M&G Asset-backed securities fund	25.0%	72.8	24.8%
Total*	100.0%	293.5	100.0%

*As at 31 December 2018, the Plan had other net investment liabilities of £0.1 million and net current assets of £1.6 million, giving total net assets of £295.0 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 2018, as in 2017, there were no holdings of shares in Diageo plc within the Plan's investment portfolios.

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 2018	3 years to 31 December 2018 (p.a)
Plan return	0.1	8.9
Benchmark	0.8	8.8

PLAN AND OTHER NEWS

Trustee privacy notice

The Trustee has a detailed privacy notice in place providing you with more details about how your information is used under the General Data Protection Regulations. The privacy notice has recently been reviewed to ensure it remains up to date. You can access the privacy notice on the Plan's website at <https://www.hartlinkonline.co.uk/diageo>

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 £1,055,000 from 6 April 2019. 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).

Included in the Autumn Budget were the following key pensions announcements which related to matters already announced or in progress:

- 】 **Pensions Dashboard:** The Government has now pledged its support for a pensions Dashboard to be created, which will allow individuals to access information from most pension schemes, including their State Pension, in one place online. The Department of Work and Pensions published a consultation in December 2018 seeking views about what the new service will look like and how it will work.
- 】 **Pensions cold-calling ban:** With effect from 9 January 2019, unwanted and unsolicited phone calls to people about their pension are illegal. Companies that break the rules may face enforcement action, including fines of up to £500,000. The exception to the ban is where:
 - the caller is authorised by the Financial Conduct Authority (FCA) or is the trustee or manager of an occupational or personal pension scheme, and
 - the recipient of the call consents to calls or has an existing relationship with the caller.

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.

Please see the following link to ScamSmart which provides a four-step guide on what a pension scam looks like, how to avoid one, and what to do if you suspect a scam: <https://www.fca.org.uk/scamsmart/how-avoid-pension-scams>

If you've already signed something you're now unsure about, contact your pension provider immediately. They may be able to stop a transfer that hasn't taken place yet. Then contact The Pensions Advisory Service at <https://www.pensionsadvisoryservice.org.uk/> or by calling 0800 011 3797.

PLAN AND OTHER NEWS

Additional Voluntary Contributions (applicable to active members)

Additional Voluntary Contributions (AVCs) are a simple and effective way to provide benefits in addition to your benefits 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.

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. The MPAA is set at £4,000.

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>

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?

The new Plan website has the option to update your nomination details using the online Expression of Wish form. Please go to: <https://www.hartlinkonline.co.uk/diageo>. Alternatively, you can request a copy from the Administrator.













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.

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.

At present, half of the Directors have been elected by employee or pensioner members. The Chairman is a professional trustee, as defined by the Pensions Regulator. All Directors have regular training in connection with their role and are supported by professional advisers who are independent of the Company.

Employer nominated	Trustee nominated				
 Charles Coase, Chairman	 Sharon Fennessy ³	 David Heginbottom ³	 Catherine James ^{2,3}	 Caroline Wehrle ^{1,3}	 Mena Hatchman ^{1,2} <i>(on sabbatical leave)</i>
Member nominated					
 John Cant	 Jim Donaldson	 Carolyn Isaacs ^{1,3}	 Andrew Lynn ^{1,2}	 Liz Paxton ²	 Ian Shaw ^{2,3}
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 right. Further information on the work of the Investment Committee is provided on page 8.

THE TRUSTEE

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	
<i>John Nicholls (retired 31 March 2018)</i> Aedin Kenealy (appointed 4 September 2018)	
Advisers to the Trustee	
Actuary	James Miller – Aon Hewitt
Administrator	<i>Diageo Pensions Team (to 9 September 2018)</i> Capita Employee Solutions (from 10 September 2018)
Auditor	KPMG LLP
Bank	<i>Lloyds Bank plc (appointed February 2018)</i> Royal Bank of Scotland plc (to October 2018)
Custodian	Northern Trust Global Services Limited
Investment Adviser	Hymans Robertson LLP
Solicitor	Linklaters LLP


WHO TO CONTACT

If you would like further information about your benefits in the Plan, you can contact the Administrator in the following ways:

 **Email:** diageopensions@capita.co.uk

 **Telephone:** 0333 222 0086

 **Website:** <https://www.hartlinkonline.co.uk/diageo>

 **Writing:** Diageo Lifestyle Plan
Capita
PO Box 555
Stead House
Darlington
DL1 9YT

Please note that whilst the Diageo Lifestyle Plan is administered from Capita's office in Edinburgh, all post is directed via Capita's office in Darlington.

When contacting the Administrator, 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 Diageo Pension Team Manager, at the above address. If you are dissatisfied with the decision of the Diageo Pension Team Manager, please ask for details of the Trustee's Internal Disputes Resolution Procedure.

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

Keep in touch

It is important that you notify the Plan Administrator of any change of address, even after you leave Diageo, so that we can ensure that you receive your benefits when they become due. You can do this via the Plan website or by writing to the Administrator (as above).

Holding personal information

In providing services to members, the Trustee, the Company and the Plan's professional advisers and administrators require access to personal data about members and their dependants. Any information you give us is handled in accordance with the Plan's Privacy Notice and in accordance with Data Protection Legislation (meaning, as applicable, the General Data Protection Regulation 2016/679, all applicable regulations, domestic legislation and any successor legislation relating to the protection of individuals with regards to the processing of personal data to which the Trustee is subject). The Privacy Notice is available on the pension website at <https://www.hartlinkonline.co.uk/diageo>. If you have further questions regarding the processing of your personal information, please contact the Administrator.

