DIAGEO
PENSIONS

GUINNESS IRELAND GROUP PENSION SCHEME SCHEME REVIEW 2019

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

CHAIRMAN'S REPORT

Welcome to the 2019 Guinness Ireland Group Pension Scheme Review.

We are issuing this report a little later than normal so that we are able to include the results of the triennial actuarial valuation of the Scheme as at 31 December 2018. As you will see, whilst the funding level in the Scheme has improved over the last three years, the deficit remains significant. I comment further below on this important matter – as well as providing the usual updates on the Scheme's accounts and investments which we hope you will find interesting.

In addition to the triennial valuation the other significant event is the Company's continued review of the future pension provision for members currently employed by the Company. This review is in relation to future service benefits only and so does not impact pensioners or deferred members or the benefits active members have built up to date. Members will continue to be kept informed regarding this review.

Actuarial valuation as at 31 December 2018

The purpose of an actuarial valuation is to review the financial health of the Scheme; it is carried out at least once every three years. The aim of the valuation is to estimate how much money the Scheme needs in order to pay the pension benefits members have already earned and to determine the contributions the Scheme needs to provide for benefits building up in the future.

Information on the actuarial valuation process and results is included on pages 4 to 6, but the key points can be summarised as follows:

- The deficit in the Scheme was €197 million, which corresponds to a funding level of 89%.
- This level of deficit has reduced from that shown by the 2015 valuation, when the deficit was €332 million and the funding level was 83%. There have been many "ups and downs" over the past three years. The returns on investments have been better than expected and inflation has been lower than expected. The Company has paid deficit funding contributions of some €95 million over the three years.
- The Trustee has discussed the results of the valuation with the Company and agreed, after taking advice from the Scheme Actuary, that the Company's contributions should be maintained at the level required to keep the Scheme "on track" with the agreed goal of eliminating the deficit by 31 December 2027. The Company will now make the following contributions:
  - The contribution rate to meet the cost of future benefits for employed members currently working in Diageo will increase from 50% to 51.5% of employees' pensionable earnings with effect from 1 January 2019. There will be no change to members' contribution rates.
  - The Company's core annual deficit contributions will be maintained at €22.5 million a year, expected to be payable until 2027.

The Scheme continues to hold a "contingent asset", provided by the Company, which further underpins the security of members' benefits. In light of the result of this valuation, the size of the contingent asset is reduced to €197 million.

CHAIRMAN'S REPORT

The reduction in the deficit is encouraging and this has been helped by the favourable economic environment of the past three years and the deficit contributions that the Company continues to pay. The Trustee is committed to the long-term goal of eliminating the deficit by 2027 and appreciates the continuing support of the Company.

Summary of the Scheme's accounts

As you will see on page 7, the value of the Scheme's net assets decreased over the year to €1,653 million. The Scheme received total contributions of €46 million and paid benefits to members and leavers of €82 million, with net negative returns on the Scheme's investments of €51 million and Scheme expenses paid of €7m.

Investment review

Information on the investments held by the Scheme, together with a summary of the investment strategy and details of past performance, is set out on pages 8 to 9. During the year the Scheme met one de-risking "trigger" and, in line with our de-risking programme, some €64 million was taken from the growth portfolio and invested in the matching portfolio with the intention of reducing investment risk and protecting the improvement in the funding level which has been achieved in recent years. Investment markets were unfavourable during the year and the investment return, excluding the liability hedging programme, was -2.7%.

Registered Administrator and online portal

As you know, the Trustee appointed Capita as Administrator of the Scheme as of 10 September 2018. Capita has now launched its online portal, Hartlink Online, that allows real-time access to your pension record, and enables you to update your personal details, your nomination details using the online Expression of Wish form and access a wide range of communication materials. The functionality available depends on your category of membership:

Active members

- obtain retirement illustrations as at normal retirement age
- view your annual benefit statements
- access other information regarding your benefits including leaving service options and death benefits

Deferred members

- obtain retirement illustrations
- access other information regarding your benefits such as a deferred benefits summary and death benefits

Pensioner members

- view your monthly payslip
- access information relating to death benefits

Feedback that we have received from members who have used the website is very positive and whilst there is no obligation on you to use the online portal as the Scheme Administrator continues to be available, we would encourage you to make use of this additional service. 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 onto the website or other help with the website, please contact the Scheme Administrator (whose contact details are provided on page 13).

Scheme news and other matters

On pages 10 to 11 you will find news about your Scheme benefits and news affecting pension arrangements in general.

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 Scheme Administrator, Capita, whose contact details are shown on page 13.

Finally, I always like to thank my fellow Trustee Directors, the team at Capita and all our advisers for their dedication and work for the Scheme and you, its members, throughout the year. In particular, I would like to pay tribute to John Hyland, who retired as a Trustee Director in September 2018 after his many years of dedicated service on the Board. We are delighted to welcome Stephen Stafford to the Board in succession to John – Stephen is a member of the Scheme, employed in Diageo's brand change team.

Charles Coase, **Chairman**

ACTUARIAL VALUATION AS AT 31 DECEMBER 2018

The actuarial valuation process

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

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

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 Scheme 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;
- what future inflation might be; and
- what returns the Scheme might be able to earn on its investments.

The funding level

The Scheme Actuary will compare the value of the benefits earned to date (the liabilities) with the current value of the Scheme's assets to establish the funding level, which is expressed as a percentage. A funding level of 100% means that the value of the Scheme's assets is in line with the value the Actuary has placed on the liabilities of the Scheme. A funding level of less than 100% means that the value of the assets is less than the value the Actuary has placed on the liabilities and therefore the Scheme has a deficit. If a deficit is revealed, the Trustee and the Company must agree a funding plan to eliminate the deficit and bring the Scheme back to a 100% funding level.

Results of the actuarial valuation at 31 December 2018

The valuation of the Scheme at 31 December 2018 showed that the ongoing funding position was as follows:

The value of the Scheme's liabilities	**€1,831 m**
The value of the Scheme's assets*	**€1,634 m**
The funding deficit	**€197 m**
Funding level	**89%**

2015 valuation by comparison

The value of the Scheme's liabilities	**€1,895 m**
The value of the Scheme's assets*	**€1,563 m**
The funding deficit	**€332 m**
Funding level	**83%**

*Excluding AVCs of €19 million (2015 - €19 million)

Over the period of three years since the actuarial valuation at 31 December 2015, the funding level in the Scheme has improved, with the main factors contributing to this change being:

- Contributions from the Company, including deficit funding contributions, have been substantially greater than the cost of the benefits which have accrued in the period;
- Investment returns have been greater than anticipated;
- The Company has not awarded any discretionary pension increases over the period since the last valuation;

The ongoing funding level at 31 December 2018 of 89% is an improvement from that at 31 December 2015, with the favourable impacts listed above offsetting the adverse impacts.

ACTUARIAL VALUATION AS AT 31 DECEMBER 2018

Statutory Funding Standard

In addition to the main valuation set out above, the actuary prepares a second valuation in accordance with a standard (the Statutory Funding Standard or SFS) which is prescribed by the government as a measure of the value of benefits under the Scheme if benefits were secured by buying annuities from an insurance company for pensions in payment and by paying "transfer values" calculated on the prescribed minimum statutory basis to an alternative scheme for the benefits accrued by employees and deferred members. This is one of the measures of the liabilities of the Scheme which might apply in the unlikely event that the Scheme was to cease operation and wind up.

The Trustee has no expectation that the Scheme will be discontinued but is obliged by law to meet the Statutory Funding Standard (or have a plan to do so) and to report the funding position of the Scheme on this basis.

As pension increases are discretionary under the Scheme's Trust Deed and Rules, no provision for pension increases is made in the SFS valuation, which has the effect of reducing the Scheme's liabilities compared with the ongoing valuation. In addition, the contingent asset provided by the Company is taken into account for the SFS valuation, in the amount of €197 million (the current deficit on the ongoing basis).

There is also an additional statutory funding requirement, called the Funding Standard Reserve, which requires pension schemes to hold additional assets above those currently required by the Funding Standard as a reserve against possible future adverse experience relating to the assets and liabilities of a pension scheme.

The Statutory Funding Standard level has improved since the valuation as at 31 December 2015, when it was 99%.

The funding position of the Scheme as compared with both the Funding Standard and the Funding Standard Reserve is shown in the table below. It is pleasing to note the Scheme satisfies both of these statutory requirements.

The value of the Funding Standard liabilities (incudes AVCs)	**€1,592 m**	**€89 m**	The value of the Funding Standard Reserve liabilities
The value of the Scheme's assets (includes AVCs)	**€1,639 m**	**€197 m**	The value of the contingent asset (for SFS purposes)
The funding Standard surplus		**€244 m**	
Funding Standard funding level		**115%**	
The funding Standard Reserve surplus		**€155m**	
Funding Standard Reserve funding level		**109%**	

ACTUARIAL VALUATION AS AT 31 DECEMBER 2018

Funding plan

As has been reported in previous years, the Trustee and the Company have agreed arrangements to restore the ongoing funding position to 100% by 31 December 2027.

Since the last triennial valuation in 2015, the Company has been paying core annual deficit contributions of €22.5 million, together with an additional annual amount of €9.3 million to ensure that the deficit recovery plan remained on track.

In light of the results of the 2018 valuation, the Trustee and the Company, after taking the advice of the actuary, have agreed that the additional annual contributions of €9.3 million are no longer required and that the core deficit funding contributions of €22.5 million a year should continue. The deficit contributions are to be paid by 31 December each year and, if the assumptions are borne out in practice, they will continue until 2027 at which point the Scheme is expected to be fully funded on the ongoing basis.

The additional security (the "contingent asset") provided by the Company to the Scheme remains in place, with the value adjusted to €197 million (the amount of the ongoing deficit). This contingent asset consists of a set of real assets that can be turned into cash by the Trustee in the unlikely event that the Scheme was to wind up and the Company was unable to meet its funding obligations. This provides another important layer of security for the Scheme.

The Trustee and the Company have also agreed that the contribution rate to meet the cost of future benefits will increase from 50% to 51.5% of employees' pensionable earnings with effect from 1 January 2019. This follows the increase from 30% to 50% as at 1 January 2017. There is no change to members' contribution rates.

Where can I get further information?

Further details of the Scheme, including copies of the following documents, can be found on the Scheme website at **https://www.hartlinkonline.co.uk/diageo**.

- 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 Scheme's investment performance and details of the Trustee and the advisers. Much of this information is summarised in this Scheme Review;
- Actuarial Valuation - shows the funding position of the Scheme as at 31 December 2018;
- Statement of Funding Principles - explains the approach adopted for funding the Scheme;
- Statement of Investment Policy Principles - explains how the Trustee invests the Scheme's assets.

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

Scheme Membership

Membership at 31 December 2018

345 Actives
1,050 Deferreds
3,330 Pensioners

Membership at 31 December 2017

363 Actives
1,128 Deferreds
3,344 Pensioners

Membership analysis at 31 December 2018

7% Actives
22% Deferreds
71% Pensioners

Active members – current employees who participate in the Scheme.
Deferred members – those members who have either opted out of the Scheme or left the Company and still retain a benefit.
Pensioners – those members who are currently in receipt of a pension, including spouses and dependants.

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 Scheme Financial Statements, which have been given a clean audit report by Ernst & Young. A copy of the formal report is available on the scheme website at **https://www.hartlinkonline.co.uk/diageo.**

	€m	€m
Value of the Scheme's net assets at 31 December 2017		**1,747.2**
Received by the Scheme		
Company contributions	43.9	
Contributions from members (including AVCs)	2.2	
Other income	0.1	
Investment income	27.0	
Income	+	**73.2**
Decrease in value of investments	-	**(77.7)**
Paid from the Scheme		
Pension and other benefits	(80.5)	
Payments in respect of leavers	(1.6)	
Administration costs and investment expenses	(7.3)	
Expenditure	-	**(89.4)**
Value of Scheme's Net Assets at 31 December 2018	=	**1,653.3**

INVESTMENT REVIEW

Investment strategy and recent developments

The Trustee determines the investment strategy for the Scheme, supported by its investment adviser Mercer (Ireland) Ltd.

The investment strategy aims to achieve the level of investment return set out in the Scheme's funding plan which has been agreed by the Trustee and Company, with an acceptable level of risk. Specifically the investment strategy aims to deliver a return which, together with the contributions payable to the Scheme, is expected to eliminate the deficit on the ongoing funding basis in respect of benefits accrued to date by 2027.

The Trustee has established a de-risking programme, which seeks to reduce the level of investment risk as the funding level of the Scheme improves, by switching out of return-seeking growth assets (such as equities) into investments with a risk and return profile more closely matched with the liabilities of the Scheme ("matching assets", such as bonds, loans and cash).

On the advice of the investment adviser and after consultation with the Company, the Trustee has set out trigger points under the de-risking programme for switches between the growth and matching assets. Between December 2017 and December 2018 the Scheme met one de-risking trigger. In line with the agreed de-risking programme, the Scheme's benchmark allocation to matching assets was increased from 64% to 68% over the course of the year. The de-risking step was implemented over two phases in March 2018 and October 2018. Some minor fluctuation of actual assets weights relative to the benchmark is expected.

In total €64 million was taken from the growth portfolio and invested in the matching portfolio as part of the de-risking step. The majority of the growth assets came from the Irish Life equity portfolios with the remainder from the IPUT property portfolio. The de-risking proceeds were invested in the Morgan Stanley Credit and Insight Cash Plus portfolios.

In November 2018, the Trustee agreed to maintain its long term target of investing 5% of Scheme assets in infrastructure investments. In order to achieve this, the Trustee agreed to commit a further €50 million to the asset class. These monies will be gradually invested over the coming years in infrastructure funds and projects as selected by Mercer Private Markets AG.

The Trustee has been allocating a portion of the growth portfolio to focus on achieving absolute returns of between 3-5% above cash, in so-called "alternative assets", comprising a diversified growth fund (managed by Aviva Investors) and a fund of hedge funds (managed by Blackrock). Following a review in 2018, the Trustee decided to disinvest the Scheme's holding in the Aviva fund and invest the proceeds into the BlackRock fund. This change was implemented in March 2019.

The value of the Scheme's actuarial liabilities, being benefits payable to members in future years, is significantly influenced by the rates of interest and inflation. Accordingly, as part of the investment strategy, the Trustee has had in place for some years a liability hedging programme, designed to mitigate the impact on the Scheme of changes in the rates of interest and inflation. At 31 December 2018, the programme hedged approximately 45% and 71% of the Scheme's exposure to changes in interest and inflation rates respectively. The inflation hedge is set mostly with reference to Eurozone rather than Irish inflation. As part of the agreed liability hedging framework, the interest rate hedging is to be increased by a minimum of 3% each year. A 4% increase to the interest rate hedge ratio was implemented over the course of 2018.

The Trustee has reviewed its practices against the Financial Management Guidelines issued by the Pensions Authority and against the Investment Guidelines issued by the Irish Association of Pension Funds and is pleased to report that it continues to satisfy these guidelines.

The Trustee will continue to review the investment strategy in conjunction with the Scheme's liabilities.

INVESTMENT REVIEW

Investment structure

The table below shows the analysis of the Scheme's investment assets at 31 December 2018 and the investment managers appointed to manage these assets.

Asset class	Principal investment managers	€m	%
Equities	Irish Life Investment Managers Limited	211	14
Alternative assets	Aviva Investors Blackrock Alternative Advisors	122	8
Property	Irish Property Unit Trust	84	5
Infrastructure	Mercer Private Markets AG	34	2
Growth-asset portfolio		**451**	**29**
Bonds, loans and cash – matching-asset portfolio	Morgan Stanley Investment Management Limited M&G Investments Insight Oak Hill Advisers	**1,079**	**71**
Assets subject to benchmark		**1,530**	**100**
Liability hedging programme	Insight Investment Management Global Limited	107	
AVCs	Irish Life Assurance plc	19	
Total investment assets		**1,656**	

Investment performance

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

1 year %		3 year %	
Return	**Benchmark**	**Return**	**Benchmark**
-2.7	**0.1**	**2.9**	**2.7**

The shortfall in returns compared with the benchmark in 2018 reflects falls in the broader investment markets.

The performance of the liability hedging programme is not included in the Scheme's overall return in the table above as its prime purpose is to act as a hedge against movements in interest and inflation and not as a return-seeking asset.

SCHEME NEWS AND OTHER MATTERS

Pension increases (pensioner members)

Pension increases are not required under the Rules of the Scheme but are provided at the discretion of the Company. The Company's policy is to consider, on a regular basis, whether to grant discretionary pension increases which, if granted, would be at the lower of the rate of price inflation since the last discretionary increase and 3%, effective on 1 January of the year in question.

In deciding whether or not to exercise its discretion and if so, the amount of such increase, the Company will have regard to:

- the funding position and solvency of the Scheme;
- the extent to which any funding plan agreed between the Company and the Trustee is considered to be "on track"; and
- the trend in inflation - currently the Consumer Price Index (CPI) - over an appropriate period.

In relation to the consideration of inflation, as previously advised, the Company has decided that no increases will be awarded to pensions in payment until the cumulative Irish inflation rate since the beginning of the last recession (November 2008) exceeds the increases awarded under the Scheme to pensions in payment over the same period. The cumulative inflation rate is measured by the Irish Consumer Price Index (CPI), which is produced by national Central Statistics Office (CSO).

As a result of the continued deficit in the Scheme and given that the cumulative CPI since November 2008 to date is less than cumulative discretionary increases to pensions in payment over the same period, no increase was awarded to pensions in payment in 2019.

Pension revaluations (deferred members)

Pensions at retirement of deferred members are adjusted during the period of deferment by the statutory revaluation amount. The statutory revaluation rate applied at 1 January 2019 was 0.5% and therefore deferred pensions were increased by 0.5% at that time. The statutory revaluation rate at 1 January 2018 was 0.4% and therefore deferred pensions were increased by 0.4% at that date.

Early retirement and Transfer payments (active and deferred members)

As set out on page 5, the funding position under the Statutory Funding Standard has improved and the Actuary has confirmed that the Scheme meets both the Funding Standard and the Funding Standard Reserve as at 31 December 2018. Accordingly, and subject to the Scheme continuing to meet these statutory requirements, early retirement (i.e. before Normal Retiring Age) is permitted for deferred members over the age of 50 at an actuarially reduced rate. Please note that the opportunity to apply for early retirement will remain as long as the Scheme continues to meet both the Funding Standard and Funding Standard Reserve.

Early retirement for active members of the Scheme is subject to the consent of the Company.

As the Scheme meets the Statutory Funding Standard, transfer values are available to deferred members who wish to transfer out of the Scheme.

Before making any decisions in relation to your pension please consider your options carefully and consider taking independent financial advice.

Additional Voluntary Contributions (active members)

Additional Voluntary Contributions (AVCs) are a simple and effective way to provide benefits in addition to your pension from the Scheme. 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 Scheme. By paying AVCs you will build up a fund of money with Irish Life which is then used to provide additional pension benefits when you retire. You have the option on how to invest your money with Irish Life.

SCHEME NEWS AND OTHER MATTERS

How to avoid a pension scam

A pension scam is when someone tries to con you out of your pension benefits 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
- accessing your pension as a cash lump sum
- the ways that you can transfer and invest your pension fund.

If someone contacts you unexpectedly and says they can help you it could be a scam. You may be offered a tempting way to invest your pension pot, e.g. investing it in a new hotel being built in an exotic location.

Most of these offers are fake but can appear very convincing. Their aim is to get you to cash in your pension benefits and transfer the money – but you will likely lose some or all of your pension benefits. If you are in any doubt, do not agree to anything and call the Scheme administrator.

All members should also take steps to avoid fraud and cyber crime

Although fraud comes in many forms, there are some simple steps you can take to protect yourself:

- Do not give any personal information (name, address, bank details, email or phone number) to organisations or people before verifying their credentials.
- Many frauds start with a "phishing" email, asking you to click on a link and confirm your bank details or other private information. Remember that banks and financial institutions will not send you an email asking for your PIN or other confidential information. Do not trust such emails, even if they look genuine. You can always call your bank using the phone number on a genuine piece of correspondence, website (typed directly into the address bar) or the phone book to check if you're not sure.
- Destroy and preferably shred receipts with your bank or credit card details on and post with your name and address on. Identity fraudsters don't need much information in order to be able to clone your identity.
- Make sure your computer has up-to-date anti-virus software and a firewall installed. Ensure your browser is set to the highest level of security notification and monitoring to prevent malware issues and computer crimes.

THE TRUSTEE

The Trustee of the Scheme is Diageo Ireland Pension Trustee Designated Activity Company. The Board of the Trustee comprises seven Trustee Directors who have the responsibility for ensuring that the Scheme is run in accordance with its Trust Deed and Rules. The current Trustee Directors are:


Mr C D Coase (Chairman)


Ms N Donohoe


Mr K Gowing


Ms J Hodgins


Mr A T Maher


Mr C Smith


Mr S Stafford

Mr J Hyland retired from the Trustee board on 7 September 2018 and Mr S Stafford was appointed to the Board on 8 May 2019.

Trustee Secretary	
Mrs A Kenealy	
Advisers to the Trustee The Trustee appoints professional advisers to provide specialist advice and guidance. The current advisers to the Trustee are:	
Actuary	Mr D S Hunter, FSAI, Willis Towers Watson Ireland Limited
Auditor	Ernst & Young
Custodian	Northern Trust Global Services Limited
Investment Adviser	Mercer (Ireland) Ltd
Legal Advisor	William Fry
Registered Administrator	Capita Employee Solutions

Sponsoring Employer

The sponsor of the Scheme is Diageo Ireland, referred to in this report as the "Company".

WHERE TO GET FURTHER INFORMATION

If you have any questions relating to this report or any aspect of the Scheme or your pension, you can contact the Administrator in the following ways:

Email: diageopensions@capita.co.uk

Telephone: 01 526 8759

Writing: Guinness Ireland Group Pension Scheme
Capita
PO Box 555
Stead House
Darlington
DL1 9YT

Please note that whilst the Scheme 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 PPS number.

If you have a complaint, please raise it with the Pension Team Manager, at the above address. If you are dissatisfied with the decision of the Pension Team 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.

WHERE TO GET FURTHER INFORMATION

Keep in touch

It is important that you notify the Scheme Administrator 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.

Use of personal data

In providing services, including preparing this review, the Trustee and its advisers require access to personal data about members and their dependants. Any information you give us is handled in accordance with the Scheme's Privacy Notice and in accordance with Data Protection legislation. The Privacy Notice has recently been reviewed to ensure it remains up to date and is available on the Scheme website at:

https://www.hartlinkonline.co.uk/diageo

If you have further questions regarding the processing of your personal information, please contact the Administrator.

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