



DIAGEO LIFESTYLE PLAN PLAN REVIEW 2022

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

CHAIRMAN'S REPORT



Welcome to the 2022 Diageo Lifestyle Plan Review.

This is my first report as Chairman – I have succeeded Charles Coase who retired from the Board in December 2021. I would like to thank Charles, who has served as a trustee of the Plan since 2006 and as Chair of the Trustee Board since 2014, for his excellent contribution over so many years to the success of the Plan. Charles has led the Trustee Board and our extended team of advisers and administrators with great enthusiasm and skill in support of the delivery of your retirement benefits.

Another year on and the worst of the challenges of the Covid pandemic appear to be behind us. I would like to thank the Diageo pensions team, our administrator, advisers and all the investment managers for their commitment and adaptability. Their response to the challenges that we have faced has enabled the Plan to continue without material disruption, providing for and delivering the benefits at retirement of all members as they fall due.

It is pleasing to note also that Diageo has been able to deliver a strong performance in a challenging operating environment. The Trustee regularly monitors the strength of the “Company covenant” and is satisfied that it remains willing and able to support the Plan should the need arise.

Actuarial valuation

The Plan's triennial actuarial valuation as at 1 January 2022 is currently underway. The purpose of an actuarial valuation is to review the financial health of the Plan. To do this we have 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 future inflation and investment returns, and make changes as appropriate. The annual update reflects changes in Plan membership, asset values and market conditions without any update of the assumptions.

The results of the valuation will be communicated in a special newsletter to all members in the second half of 2022.

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CHAIRMAN'S REPORT

Summary of the Plan's accounts for the year ended 31 December 2021

As you will see on page 5, the value of the Plan's net assets increased by almost 7% over the course of 2021, from £433.3 million to £464.3 million. This was largely due to the receipt of contributions of £31.3 million and investment and other income of £7.4 million. Benefit payments to members and expenses totalled £11.1 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 6 to 8. The overall investment return for the year to 31 December 2021 was 1.8%, with an annualised return over three years of 9.2% (the benchmark returns for these periods were 1.7% and 8.8% p.a. respectively).

Over the year, global output has seen strong growth with the gradual reopening of major economies. The pace of growth eased at the end of the year due to the emergence of the Omicron variant. Nevertheless, the UK GDP increased by 7.5% over the year, ahead of the forecasts. We have seen positive performance across equity and credit markets, as return-seeking assets benefitted from the overall economic recovery. Inflation continued to rise through the year reaching 5.4% year-on-year in December, exceeding the central bank's target. In response to rising inflation, the Bank of England raised interest rates to 0.25% p.a. in December with further increase to 0.5% and 0.75% in early 2022. Government bond yields rose during the period in line with the recovery in growth and rising inflation expectations. The combination of rising government bond yields and inflation led to a small increase value of the Plan's liabilities, which was closely matched by the hedging provided by the Plan's protection assets.

CHAIRMAN'S REPORT

Other matters, including Responsible Investment

You will find some other news about the Plan or pensions more broadly which may affect members on pages 9 to 11.

I would like particularly to comment here on the topic of "Responsible Investment", including the stance of the Trustee on what are commonly called Environmental, Social and Governance (or "ESG" for short) risks, including the risk of climate change. Research has shown that companies which are well run and which address ESG risks are more likely to be able to repay their borrowings and more likely to deliver stronger returns for their shareholders. There is now increasing focus on the role that pension schemes, as significant stakeholders in companies as either shareholders or providers of debt capital, can play in encouraging, indeed demanding, better performance from companies on ESG risks including climate change. Your Trustee is playing an active part in this agenda. As set out more fully on page 7, we have established a Responsible Investment sub-group which has devoted considerable energy and time to this important topic, developing our policies and procedures and engaging extensively with our investment managers. We seek confirmation that they are taking full account of our policies in their management of the Plan's investments on behalf of the Trustee. Although we don't hold any shares in companies and thus cannot vote in AGMs, we will nevertheless use our influence wherever we can to encourage and support best practices.

I would remind you particularly of the extensive functionality available on our members' online portal, Hartline Online, including real-time access to information on your pension benefits (see page 9 for more information on this). If you cannot find what you need on the portal, our Administrator, Capita, remains available to help (see page 14 for contact details).

I would also add that fraudsters continue to engage in scams designed to trick pension scheme members. Be very cautious if you are approached by someone you don't know in relation to your pension benefits. Please read our further comments on this topic on page 11.

With best wishes to you all.

Peter Goshawk, Chairman

SUMMARY OF THE PLAN'S ANNUAL ACCOUNTS TO 31 DECEMBER 2021

Plan Membership

4,923 Members at 31 December 2021

2,286 Active
2,629 Deferred
8 Death benefit only

5,020 Members at 31 December 2020

2,469 Active
2,540 Deferred
11 Death benefit only



Membership analysis at 31 December 2021

46% Active
53% 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 covered for a lump sum death in service benefit only.

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 2021

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 | | 433.3 |
| Received by the Plan | | |
| Company and member contributions* | 31.3 | |
| Other income | 1.9 | |
| Income | + | 33.2 |
| Paid from the Plan | | |
| Benefits | 2.2 | |
| Payments in respect of leavers | 7.2 | |
| Administration, investment and life cover costs | 1.8 | |
| Expenditure | | (11.2) |
| Change in value of investments | | 9.0 |
| Value of Plan's Net Assets at the end of the year | = | 464.3 |

*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 manages the Plan's liability matching assets using LDI (Liability Driven Investment) solution funds, while M&G Investment Management manages the cash plus funds.

Summary of Investments at 31 December 2021

A summary of the Plan's investments as at 31 December 2021, together with the strategic benchmark asset allocation, is shown below.

| Manager | Benchmark Allocation | As at 31 December 2021 | |
|---|----------------------|------------------------|---------------|
| | | £m | % |
| Insight LDI solution fund | 50.0% | 242.2 | 52.5% |
| Insight Liquidity fund | - | 4.1 | 0.9% |
| M&G Syndicated senior secured commercial loans fund | 25.0% | 107.3 | 23.2% |
| M&G Asset-backed securities fund | 25.0% | 108.1 | 23.4% |
| Total* | 100.0% | 461.7 | 100.0% |

*As at 31 December 2021, the Plan had current liabilities of £0.4 million and current assets of £3 million, giving total net assets of £464.3 million.

INVESTMENT REVIEW

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. There are no specific restrictions within the guidelines for Diageo's mandates which cover maximum amounts of self-investment. However, in general, Schemes are currently not permitted to invest more than 5% of pension scheme assets in employer related investments. At 31 December 2021, there were no holdings of shares or debt in Diageo plc within the Plan's investment portfolios.

Environmental, Social and Governance Policy

Over the past year, the Trustee has continued to work actively on incorporating the principles of Responsible Investment (RI) into the Plan's investment strategy and the ongoing management of the assets. The Trustee continues to pay particular attention to Environmental, Social and Governance (ESG) factors and is working towards being more active across various areas of RI, to the extent that this is in the best interests of the Plan and its members.

The Trustee has established its RI beliefs and developed a policy to guide the Trustee's decisions when considering ESG factors within the Plan's investments, recognising that these factors could have a potentially material financial impact.

The Trustee has maintained a relatively low risk investment profile for the Plan reflecting its strong funding position and long term objectives, and therefore the Plan does not hold any listed equities. As such we are unable to directly vote or buy/sell equity positions to demonstrate our RI beliefs. However, there are RI considerations to be taken in all our investments and we are working closely with our investment managers to understand their monitoring and decision-making processes for considering ESG factors to ensure they align with our policy and beliefs. The Trustee continues to believe that our investment managers are best placed to engage with investee companies on ESG related matters on behalf of the Trustee and we review and discuss their engagement activities as a key element of our regular review meetings with managers.

A separate RI sub-group has been established to ensure that the Trustee appropriately addresses RI matters.

On 1 October 2021, new climate change regulations came into force that will require large pension schemes to assess, manage and disclose climate risk in line with a framework put forward by the Taskforce for Climate Related Financial Disclosures (TCFD). Although the Plan is not yet subject to these new regulations, it shares common investment managers with the Trustee's larger scheme, the Diageo Pension Scheme and as a result has been able to benefit from the additional work carried out to meet these regulations.

As part of this work, the RI sub-group has reviewed the Trustee's governance and risk management policies and processes to ensure that these account for the risks and opportunities associated with climate change in an appropriate way. In addition, the sub-group, with assistance from the Trustee's investment advisers, has held meetings with the Plan's investment managers to gain a better understanding of the climate risks and opportunities within the Plan's investment portfolio.

The full Trustee Board continues to receive regular updates and training on RI related developments. The Trustee attended a climate risk training day in January 2021 and received training on the various metrics that can be used to measure climate risk.

The Trustee will report further to members on this important topic in next year's Review.

INVESTMENT REVIEW

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 2021 (%) | 3 years to 31 December 2021 (% p.a) |
|-------------|--------------------------------|-------------------------------------|
| Plan return | 1.8 | 9.2 |
| Benchmark | 1.7 | 8.8 |

Over the year to 31 December 2021, the LDI portfolio performed in line with its benchmark while the syndicated senior secured commercial loans fund and asset backed securities mandate outperformed their LIBOR benchmarks. The small outperformance at total Plan level over 12 months was driven by the M&G mandates despite their slightly underweight positions relative to the strategic targets over the reporting period.

PLAN AND OTHER NEWS

Plan website – Hartlink Online

In addition to a wide range of communication materials, the Plan website also allows real-time access to your pension record, and enables you to update your personal details (name, address, marital status) and your nomination details using the online Expression of Wish form. Additional functionality is also available and depends on your category of membership:

Active members

- › obtain illustrative Transfer/Retirement Account illustrations
- › view your annual benefit statements
- › access information regarding your benefits in relation to the Annual Allowance
- › access other information regarding your benefits including leaving service options and death benefits

Deferred members

- › obtain illustrative Transfer/Retirement Account illustrations
- › access other information regarding your benefits such as a deferred benefits summary and death benefits

Member options exercise

In December 2021, active members of the DLP were offered the chance to opt out of the DLP and join the Diageo Pension Plan (DPP), Diageo's UK Defined Contribution plan, with enhanced company contributions for 3 years from 1 April 2022. The default was that members would remain in the DLP and continue to build up future service benefits on the current terms. This enhanced contribution option under the DPP closed on 31 March 2022. In early summer, any member who chose to opt out of the DLP as part of this exercise will be given the option to transfer their accrued benefits in the DLP to the DPP or another pension arrangement of their choice.

Normal Minimum Pension Age

The government issued the Finance (No.2) Bill in November 2021 which sets out how the protected pension age regime will apply in relation to members who currently have a Normal Minimum Pension Age of 55 which is expected to increase to 57 from April 2028. The Treasury issued a statement on 4 November 2021 which stated that some stakeholders had expressed concern that the previous draft of the Finance Bill would have allowed people either to join or transfer into a scheme which can offer a protected pension age of 55 at any point up to 5 April 2023. The government closed this window of opportunity on 3 November 2021, meaning that only members who had transfers out in progress on that date would be able to benefit. The Treasury stated that this early closure of the window was fairer to pensions savers and would help to mitigate the risk of poorer outcomes.

PLAN AND OTHER NEWS

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.

If you die while working for the Company as an active member, a lump sum will be payable calculated as the higher of:

1. the amount of your Retirement Account immediately before your date of death; and
2. 6 times your Pensionable Pay* over the 12 months ending on the previous 31 December before your date of death.

* Pensionable Pay is your basic salary plus any regular emoluments specifically stated to be pensionable in your contract of employment or as otherwise determined by the Company. If you participate in Salary Exchange for Pensions, Pensionable Pay is your pay before the deduction of the contributions (salary exchange adjustment).

If you die as a deferred member, a lump sum equal to the value of your Retirement Account at the date of death, including increases between the date you left Diageo and your death will be paid.

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 update the Expression of Wish section on the Hartlink Online Portal (HOP). If you are not yet registered for HOP a copy of the form is available from the Administrator or on the Plan website at www.hartlinkonline.co.uk/diageo and selecting Scheme Information and then the Diageo Lifestyle Plan.

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.

You may update your wishes 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 form to let the Trustee know of any changes to your wishes.

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 in the event that you are no longer around.

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 My Diageo Benefits Hub. Information about the DPP can be found under 'Your key documents library' on the following website <https://www.scottishwidows.co.uk/save/dpp/>

PLAN AND OTHER NEWS

Don't let a scammer enjoy your retirement

Scammers are targeting pension pots of all sizes – make sure you know how to spot the signs.

Pension scammers are targeting people like you – you could lose all your retirement benefits!

Scams are hard to spot and are often disguised with credible websites, testimonials and materials which make them look like the real thing. To help you spot the signs and protect yourself from a scam, the Financial Conduct Authority (FCA) and The Pensions Regulator suggest following four simple steps.

Step 1 - Reject unexpected offers

If you're contacted out of the blue about a pension opportunity, chances are it's a scam. Pension cold calling is illegal and you should be very wary. An offer of a free pension review from a firm you've not dealt with before could well be a scam.

Step 2 - Check who you're dealing with

Search **ScamSmart** and check the FCA's register to make sure anyone offering you advice is authorised. If they are, check they're permitted to give pension advice by calling the **FCA Consumer Helpline** on 0800 111 6768. If you don't use an FCA-authorised firm, you risk not having access to compensation schemes.

Step 3 - Don't be rushed or pressured

Take your time to make all the checks you need – even if this means turning down what seems to be an 'amazing deal'.

Step 4 - Get impartial information or advice

You should seriously consider seeking financial advice before changing your pension arrangements. In some cases, for example where you are wanting to transfer more than £30,000 from a defined benefit scheme, you must obtain this advice.

Consider using **MoneyHelper** which provides free independent and impartial information and guidance.

If you suspect a scam, report it.

You can report an unauthorised firm or scam to the FCA using the **online reporting form** or on 0800 111 6768,











If you suspect a scam, **report it to Action Fraud** on 0300 123 2040 or at **www.actionfraud.police.uk**.

Be ScamSmart with your pension. To find out more, visit **www.fca.org.uk/scamsmart**

THE TRUSTEE

The Trustee of the Scheme is Diageo Pension Trust Limited. There are currently 10 Trustee Directors of the Trustee Company who have the responsibility for ensuring that the Scheme is run in accordance with its Trust Deed and Rules.

At present, half of the Directors have been nominated by members of the Plan. 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 | | | | |
|---|---|---|--|---|--|--|
|  | |  |  |  |  | |
| Peter Goshawk ^{2,3} , Chairman | | Tegs Harding ² Professional Trustee, appointed 24 January 2022 | Claire Jordan ² Appointed 1 December 2021 | Caroline Wehrle ^{1,2} | Eddie McShane ^{1,2} | |
| Member nominated | | | | | | |
|  |  |  |  |  | | |
| John Cant ² | Jim Donaldson | Andrew Lynn ^{1,3} | Chris Lewin ^{1,2} | Clare Reilly ³ | | |
| 1 Audit Committee member | | 2 Investment Committee member | | 3 Member Services Committee member | | |

Charles Coase and Sharon Fennessy resigned from the Board on 1 December 2021.

The main committees of the Trustee Board are the Audit, Investment, and Members Services Committees, the members of which are identified above. The roles of the Audit and Member Services Committees are summarised below. Further information on the work of the Investment Committee is provided on page 6.

THE TRUSTEE

Audit Committee

The Audit Committee oversees the Plan's governance, the services and internal controls of the 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.

Member Services Committee


The Member Services Committee oversees the administration of the Plan and member services experience and quality. In addition, the Committee is also responsible for exercising, on behalf of the Trustee, certain discretions under the rules of the Plan.

| Secretary | |
|---------------------------|--|
| Aedin Kenealy | |
| Advisers to the Trustee | |
| Actuary | James Miller – Aon |
| Administrator | Capita Pension Solutions Limited |
| Auditor | KPMG LLP |
| Bank | Lloyds Bank plc |
| Custodian | Northern Trust Global Services Limited |
| Investment Adviser | Hymans Robertson LLP |
| Solicitor | Linklaters LLP |
| Life Insurance | Canada Life Group Insurance |

WHO TO CONTACT

If you would like further information about your benefits in the Plan, you can contact the Administrator as outlined below. Our preferred method of contact is by email at **diageopensions@capita.com**. If you do need to speak to someone urgently, please call 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 Dispute 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.

In the current "working from home" environment, the preferred method of contact with the Administrator is by email to: diageopensions@capita.co.uk

Keep in touch

It is important that you notify the 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). If you are still employed by Diageo, you need to update your address in Workday.

It is also helpful if you are able to provide a personal email address – you can provide this via the portal.

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.

