Diageo Pension Trust Ltd

Responsible Investment Policy

Diageo Pension Trust Limited is the Trustee of the Diageo Pension Scheme (the Scheme), a final salary CARE scheme.

The Pension Investment Committee (PIC), a sub-committee of the Trustee Board, oversees the investment strategy of the Scheme and deals with ongoing investment related issues on behalf of the Trustee. The PIC engages with individual investment managers to scrutinise the investments and their returns and monitors the overall investment performance of the Scheme to ensure the long-term financial obligations to members can be met. The PIC has further established a Responsible Investment (RI) sub-committee to progress the activities required to demonstrate the Board's commitment to sustainable business practices. These activities are centered on the principles of:

- active engagement
- adherence to good practice
- integration
- transparency

Responsible Investment (RI) ensures the management of environmental, social and governance (ESG) factors, including those of climate change and biodiversity, and the requirement for asset owners and investment managers to consider stewardship are incorporated into an investment strategy.

The Trustee believes that RI issues can have a material impact on the performance of its investments and its ability to deliver sustainable investment returns over the longer term and will seek to manage emerging ESG risks and opportunities within its investment strategy, in accordance with the Scheme's asset allocation. The Trustee will monitor the risk to its investments from changes in the global environment along with other risks that the investments are exposed to.

The Trustee believes that investment managers are best placed to take action on ESG matters and should embed ESG considerations throughout their investment process. The Trustee will ensure that the management of ESG issues is considered in the appointment and ongoing monitoring of all investment managers.

The Trustee considers climate-related risks and their potential financial implications within the wider RI approach. Climate-related risks are systemic risks which can impact all asset classes and sectors to varying degrees, and will be the subject of specific risk management, measurement, and stewardship efforts within the Trustee's RI activities. The Trustee acknowledges that biodiversity loss is also a source of systemic risk which is linked to and impacts on the ability to tackle climate change. The growing scientific evidence highlights that there is an urgent need to address both nature loss and climate change in an integrated way.

The Trustee recognises that solutions aimed at addressing ESG risks (including climate-related risks and biodiversity) can also present opportunities to long-term investors. The Trustee will manage the impact of emerging ESG risks and, where investment returns are not compromised, consider opportunities that arise to include social impact investing in its investment strategy, in accordance with the Scheme's asset allocation. The Trustee is also working to build its understanding of biodiversity risks and opportunities (and in particular, their relationship with climate-related risks and opportunities), initially through engagement with its investment managers.

ESG factors present financial and reputational risks and opportunities for the Scheme and its sponsor, Diageo plc. A consistent approach to the management of these factors will allow both parties to minimise risk and maximise opportunity. Diageo has articulated its approach to sustainable business in its Society 2030 goals. The Trustee takes full consideration of this strategy in its own approach.

The Trustee is expected to act in the best interests of its members and believes that investing responsibly and improving society is in members' best interests. Member confidence in the Trustee could be negatively affected if the Trustee is not seen to be a responsible investor.

Net zero aspiration

An important part of the mitigation of climate risk will be reducing the greenhouse gas emissions of the Scheme's assets over time. The Trustee has set the following aspiration for the Scheme to reach a net zero position:

The Trustee aims to achieve net zero greenhouse gas emissions for all Scheme assets by 2050. The Trustee is comfortable that this is in line with its fiduciary responsibility to the Scheme and its members. The Trustee's key aim is to make a real-world impact on global emissions, which will be achieved through engagement with the Scheme's investment managers in relation to their policies and processes and to improve data quality, as well as reallocation of capital where appropriate. The Trustee will continue working with the Scheme's managers to gather the relevant data to allow well informed targets to be put in place which are appropriate for each asset class and expects different parts of the portfolio to follow different trajectories as it works towards this aim.

This commitment is based on the expectation that governments and policy makers will deliver on their commitments to achieve the 1.5°C temperature goal of the Paris Agreement.

Integration of biodiversity

As set out above, biodiversity loss is a source of systemic risk which must also be addressed by policymakers and market participants, and it will impact on the ability to meet net zero targets over time. As set out in the draft Taskforce for Nature Related Disclosures (TNFD), evaluating dependencies and impacts on nature is an essential part of an organisation's sound governance and risk management framework and supports efficient capital allocation. This evaluation will involve a focus on the five drivers of biodiversity loss: land/water/sea use change, natural resource use, climate change, pollution, and invasive species.

The Trustee will engage with each of its managers to understand the risks and opportunities related to biodiversity and how they apply to the Scheme's various asset classes and mandates.

Active engagement

Effective stewardship is important to protect and enhance the value of investments and therefore the Trustee will proactively engage with stakeholders on RI matters, including climate-related and biodiversity risks.

The Trustee has the opportunity to exercise its rights as owners of assets, including whether to buy, sell or hold assets according to a range of factors, including RI and ESG factors. Ownership rights vary according to the asset and the ability to exercise those rights varies according to the manner in which they are held. The Trustee believes it should exercise its ownership rights where possible as this is consistent with its fiduciary duties and in line with regulatory guidance.

Adherence to good practice

The Trustee believes active engagement on RI, including ESG and climate-related risks, is important and will seek out best practice across the industry. Affiliation with industry groups and initiatives can have a positive impact on the Trustee's knowledge and can help to inform ESG considerations and decisions. Collaboration and collective action with other asset owners can be an effective method for engaging with and influencing investment managers on ESG issues and can have a greater impact than the Scheme working in isolation.

The Trustee will also promote the benefits of RI and its implementation with stakeholders, including members, sponsor, and advisors.

The Trustee supports the adoption of the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) and encourages efforts to develop similar nature focused disclosures through the Taskforce on Nature-related Financial Disclosures (TNFD) framework which is due to be published in September 2023.

The Trustee will also utilise other frameworks for integrating ESG issues into its investment decision-making, stewardship and reporting activities, leveraging best practice for each asset class.

Integration

The Trustee believes that companies and investments that are well governed in relation to ESG factors will be stronger and as a result deliver better risk-adjusted returns and outcomes in the longer term. The Trustee will integrate RI, including ESG factors and climate-related risks, into its investment processes, as doing so should lead to better investment decisions for its members. Appropriate attention will also be given to understanding the impact of biodiversity on the Scheme's investments and on the ability to progress towards its net zero ambition and how this can be integrated into key investment processes.

The Trustee believes that investment managers are best placed to take action on ESG matters and that investment managers should integrate ESG considerations into their investment processes. Investment managers appointed by the Trustee are responsible for engaging with investee companies and issuers on RI issues, including ESG and climate-related matters, including biodiversity, that could have a material impact on performance. Whilst the Trustee allows managers the discretion to take these actions, there are some investments which the Trustee views as being in opposition to this Trustee's RI Policy and so should be excluded from each mandate. The Trustee's exclusions policy is set out below.

Investment managers should articulate how they anticipate future ESG issues, their potential impact, and how these are included in their investment decisions. Although the Scheme does not currently hold equities, the Trustee believes that equity managers should take responsibility for voting.

Transparency

Transparency is important for successful integration into investment decision-making processes and for demonstrating the Trustee's commitment to RI and sustainable business practices. Transparency is considered a positive and important attribute for companies and issuers, and for investment managers who are required to report on ESG issues associated with investments held.

Disclosure is viewed as being an important step in the Trustee's relationship with stakeholders and the Trustee will make appropriate disclosures on its RI activities and on ESG factors and climate-related risks associated with its investments using available data. The Trustee is supportive of efforts to enhance the disclosure of ESG issues as a means to encourage positive behaviour and best practice. This includes communication to members, for example through the preparation of the Scheme's annual TCFD report which is prepared with members in mind and signposted in annual member communications, with Trustee inviting feedback and input from members on their views.

Exclusions Policy

The Trustee recognises that whilst managers have a level of discretion over the investments they make within each investment mandate, there are some investments which would be in opposition to the Trustee's RI Policy and so should be excluded from each mandate. The Trustee's current policy is to exclude from its mandates any investments:

- in any government or company which is currently subject to legal sanctions by the UK, EU and US or which provides any exposure to individuals subject to legal sanctions by the UK, EU or US.
- in controversial weapons, including weapons of mass destruction, cluster munitions, landmines or chemical and biological weapons.

As part of this policy, managers are also expected to:

- regularly assess the exposure, within any current or potential investment, to companies that derive more than 20% of revenue or power production from the extraction and processing of thermal coal. Where these exposures exist, managers may continue to invest in these holdings but must have a plan in place to reduce and eventually remove this exposure by 2030 for companies in or conducting business in the OECD and EU and 2040 for other countries in line with the target dates set out by the IPCC. This reduction/removal in exposure should be either through the manager's divestment from the company in question prior to these dates or through the company reducing its own exposure over time to below the 20% threshold.

- screen portfolios on a regular basis for companies in violation of the UN Global Compact Principles and raise any concerns with the Trustee.

When appointing new managers, consideration will be given to how each manager's own policy aligns with the Trustee's policy.

Existing pooled fund managers will be asked to report on their activity against this policy on a regular basis. Where a manager's activity does not align with this policy, a more detailed review of the manager will be carried out and divestment considered where it is not possible to align policies.

For existing managers of segregated or fund of one mandates, managers will be instructed to adjust their fund guidelines to incorporate these exclusions and to discuss with the Trustee any current holdings which do not comply.

In the case of sanctions, where any new sanction comes into place, managers will be prohibited from purchasing further investments subject to that sanction on either the primary or secondary market. In addition, managers will be expected to have a sanction monitoring process in place to screen their portfolio for investments subject to any new sanctions and should highlight and discuss with the Trustee a plan for any exposures identified.

Should any holdings be identified that no longer comply with the policy, suitable actions should be agreed within 3 months.

The Trustee requires current and future fund managers to implement this exclusion policy in accordance with their own exclusion approaches. The Trustee will hold the underlying fund managers to account on the implementation of their individual policies and expect that they review their exclusion lists periodically.

The PIC will review this RI Policy at least annually to adapt to changes in the investment strategy, regulation, industry guidance and best practice.