

# Diageo Pension Scheme

Myners Adherence Document  
November 2022

Prepared for

The Trustee of the Diageo Pension Scheme

Prepared by

Hymans Robertson LLP as Investment Adviser to the  
Scheme

# Contents

## Myners Adherence Document

## PAGE

Myners Code	2
1 Effective Decision Making	3
2 Clear Objectives	5
3 Risk & Liabilities	7
4 Performance assessment	8
5 Responsible ownership	9
6 Transparency and reporting	10

## Appendices

Appendix A – Myners compliance status table	11
Appendix B – PIC Terms of Reference	13

---

HYMANS ROBERTSON LLP

## Myners Code

### Introduction

This document contains the Code of Myners Principles Adherence for the Diageo Pension Scheme (the “Scheme”). It is maintained by the Investment Adviser on behalf of the Directors of Diageo Pension Trust Limited, the trustee of the Diageo Pension Scheme (the “Trustee”).

This document has been prepared in accordance with the revised structure of the Myners Principles brought into force in late 2008, having replaced the previous Transparency Statement of 2004. It is reviewed and approved annually.

The practices described within this document form the basis for investment decision making by the Scheme’s Trustee. The Trustee applies high standards of investment governance. It complies with all elements of the Myners code, as summarised in Appendix A.

This document is available to members on request.

This document was approved by the Trustee board at its meeting on the 30 November 2022

P Goshawk

Peter Goshawk

Chairman

Diageo Pension Trust Limited

Trustee of the Diageo Pension Scheme

# 1 Effective Decision Making

## The Principle

Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.

Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

## Appointments

The Trustee considers actuarial and investment services separately and has appointed separate organisations to provide each of these services.

The Trustee's Investment Adviser is the Investment Consultancy Practice of Hymans Robertson LLP. David Walker is the principal named advisor.

Actuarial services to the Scheme are provided by Aon Hewitt and James Miller is the appointed actuary.

The Trustee formally monitors the performance of each of its advisers on a regular basis.

The Trustee has also established a Pensions Investment Committee (PIC) comprising of at least four directors of the Trustee. The PIC meets six times each year or more frequently if required. There is also currently a Responsible Investment Sub-Group, formed from a sub-set of members of the PIC. The Terms of Reference for the PIC and the RI Sub-Group are included as Appendix B.

## Terms of appointment

### Trustee

The Trustee carries out the following roles:

- sets structures and processes for carrying out its role;
- selects and monitors the asset allocation strategy;
- appoints the PIC;
- considers recommendations from the PIC;

### Pensions Investment Committee

The PIC:

- informs the Trustee of decisions relating to the -
  - selection of investment advisers and fund managers;
  - structure for implementing investment strategy;
- monitors investment advisers and fund managers;
- monitors pooled funds and direct investments;
- makes ongoing decisions relevant to the operational principles of the Scheme's investment strategy and selects direct investments including AVCs.
- monitors exposures to risks including those related to environmental, social and governance (ESG) risks and follows best practice principles to minimise these.

### Responsible Investment (RI) Sub-Group

The RI Sub-Group are responsible for ensuring the Trustee considers and appropriately addresses all relevant RI related matters. The current focus of the RI Sub-Group is to address the actions that will be required over the next year in order for the Trustee to:

## HYMANS ROBERTSON LLP

- Act in line with the beliefs and principles set out in the Trustee's agreed RI policy.
- Continue to progress towards becoming more active in all areas of RI.
- Meet the requirements of the new climate related regulations that came into force from 1<sup>st</sup> October 2021.

**Investment Adviser**

The role of the appointed Investment Adviser is to:

- advise on all aspects of the investment of the Scheme assets, including implementation;
- advise on this statement;
- provide required training.

**Fund Managers**

The Trustee has delegated the day to day management of the Scheme's investment portfolios (and related activities) to professional investment managers. Their roles are to:

- operate within the terms of this document and their written contracts;
- select individual investments with regard to their suitability and diversification;
- provide reporting including reporting on climate and responsible investment related risks and opportunities;
- act in lieu of the Trustee in exercising stewardship of the investments.

**Other**

The Pensions Audit Committee may deal with investment matters from time to time but the vast majority of investment issues are covered by the parties covered above.

**Trustee Knowledge & Understanding Relating to Investment**

The Trustee ensures, as far as possible, that the level of knowledge and understanding relating to investments is at a high level across all directors. This is in line with The Pensions Regulator's code of practice March 2005 Trustee knowledge and understanding (TKU), which requires a broad base of knowledge on a variety of issues. All Trustee directors are expected to have completed the TKU assessment within six months of their appointment. Training is provided as required at all meetings of Trustee directors through the papers and presentations provided by the various advisors to the Scheme. The Trustee also attends external courses and conferences where appropriate.

## 2 Clear Objectives

### The Principle

Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

### Scheme Objective

The primary objective of the Diageo Pension Scheme is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. These are also set out in detail in the Scheme's Statement of Investment Principles.

The Trustee aims to fund the Scheme in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Scheme's assets and that appropriate levels of contributions are agreed by the respective employers to meet the costs of future benefits accruing.

### Basis of Evaluation

The Scheme is a defined benefit pension scheme where benefits are based on service completed but take account of future salary increases. Benefits built up to 31 March 2018 are linked to Final Pensionable Pay while benefits accrued from 1 April 2018 are built up on a Career Average Revalue Earnings basis. Benefits for preserved members are subject to statutory increases (LPI – limited price indexation). Benefits for pensioners are subject to inflationary increases, except where higher LPI increases apply to statutory elements of the benefits.

The Trustee arranges for an actuarial valuation of the Scheme to be conducted at least every three years.

### Overall Investment Structure

The investment structure of the Scheme's investments is described in detail in the Scheme's annual report and accounts.

The mandates and benchmarks which are currently in place have been agreed over time through a series of investment strategy and structure reviews, which have been carried out with the assistance of the Scheme's Investment Adviser.

The Trustee has considered, and is prepared to tolerate, the potential risks of manager underperformance associated with their pursuit of outperformance.

Benchmarks are used:

- to evaluate managers' relative performance;
- to monitor the extent of managers' deviations from benchmark performance; and
- to specify the limits on managers' asset allocation deviations (specified by investment restrictions).

The Trustee has discussed the nature of their return targets with each of the managers, and the Scheme's Investment Adviser, and has established investment restrictions, where appropriate, which are consistent with the managers' performance objectives.

The Trustee recognises that the pursuit of superior performance through active management also carries the risk of underperformance. However, it believes, and the managers accept, that the investment restrictions, where appropriate, will limit risk (relative to benchmark) to a tolerance that the Trustee deems acceptable.

HYMANS ROBERTSON LLP

---

The Trustee considers the extent to which the active managers expect to achieve outperformance through stock and sector selection and asset allocation and considers the risks associated with stock and sector concentration in each of the markets in which the Scheme is invested.

**Transaction Costs**

The Trustee expects to monitor the managers' turnover and transaction costs on a periodic basis in line with the transaction cost reporting framework of the Fund Management Association with which the managers intend to comply.

**Custody**

The Myners review considered that protection for pension scheme members from the risk of fraud could be improved by making custody independent of the employer a mandatory requirement for all pension funds.

The Trustee will review the custody arrangements of the Scheme from time to time. Northern Trust currently acts as the Scheme's custodian. All assets, except those invested in pooled funds (and the property assets which are held by two separate trustee companies), are held in custody with Northern Trust. All assets held in pooled funds are subject to the independent custodianship arrangements arranged by the relevant investment manager.

**AVCs**

The Trustee has set up several investment options for eligible members' additional voluntary contributions (AVCs).

The range of options and information on the available funds is provided to members as required. Details of the funds that members are currently invested in are set out in the Scheme's report and accounts. Members can choose to switch AVCs between options available to them from time to time, subject to the terms and conditions of each vehicle. At retirement, the accumulated value of a member's AVCs is used to purchase additional pension.

Members also have a "lifestyle" option available to them, which reduces the allocation to higher risk investments in favour of low risk investments over a period up to a retirement age chosen by the member.

## 3 Risk & Liabilities

### The Principle

In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities, including longevity risk. The trustees should have policies on their willingness to adopt a mismatch between liabilities and assets, and to accept underperformance due to market conditions. This policy should take into account the strength of the sponsor's covenant and its objectives and willingness to contribute to the Scheme as well as the risk of sponsor default.

Trustees have a responsibility to establish and operate internal controls.

### Basis for Determining Scheme Strategic Asset Allocation

In determining the investment strategy for the Scheme, the Trustee translates the Scheme objective, which is defined in terms of liabilities, into a strategic asset allocation deemed appropriate to meet the overall objective. This requires the Trustee to make judgements about the risk and return characteristics of the combination of benchmark asset classes and the Trustee takes professional investment advice in reaching this judgement.

### Strategic Asset Allocation

The current Scheme strategic asset allocation has been derived after conducting a detailed review of investment strategy and structure. Details of the strategic asset allocation are set out in the Scheme's annual report and accounts.

In setting the strategic asset allocation, the Trustee takes account of the nature of the Scheme's liabilities, the current funding position and the aggregate contribution rate payable. The Trustee also takes account of its own and the Company's attitude to risk.

The Trustee aims to reduce the level of risk in the asset allocation over time as the Scheme moves toward its target objective and has a risk management framework in place to assist it in achieving this objective. The Trustee expects that this risk managed approach will help to make good the current deficit and reduce the future cost of benefits accruing.

The Trustee also has in place a number of derivative instruments which are designed to further reduce the mismatch between the Scheme assets and liabilities.

### Expected Return on Assets

In setting the investment strategy of the Scheme and determining an appropriate strategic asset allocation for the Scheme the Trustee will receive advice and analysis from the appointed investment adviser, Hymans Robertson. The analysis will include assumed long term returns and volatilities from a range of different asset classes in which the Scheme invests. The Trustee is aware of the assumptions underlying this analysis.



## 4 Performance assessment

### The Principle

Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers. Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

### Investment Managers

The Trustee monitors the performance and activity of all its investment managers on a regular basis.

As well as receiving regular investment management reports the Trustee also receives presentations from the investment managers at least once a year and reports its findings back to the Trustee Board.

### Custodian

The Trustee reviews its custody needs and its custodians on a regular basis.

### Other Advisors

The Trustee receives regular written advice on the performance of the managers, developments in the market which are of relevance to the Scheme as well as ad hoc advice on current issues from Hymans Robertson LLP, the Scheme's investment adviser. Actuarial advice is received from Aon Hewitt, with legal advice being provided by Linklaters.

The Scheme's auditor, KPMG LLP, carries out an annual audit and reports its opinion to the Trustee on the Scheme's financial statements.

The Trustee assesses the performance of its advisers on a regular basis and sets formal objectives for its investment consultants in line with regulations.

### Performance Relative to Liabilities

Following actuarial valuations and subsequent asset/liability studies where appropriate, the Trustee reviews the asset allocation of the Scheme to ensure that it reflects the nature of the Scheme's liabilities.

The Trustee receives regular updates on funding levels from its actuarial advisers.

### Assessing Decisions

The Trustee makes an assessment of its own procedures and decisions, and an assessment (qualitative and quantitative) of its advisers. This assessment is carried out on a continuous basis and formally annually.

The assessment process has been codified by the Trustee and is kept under review.

## 5 Responsible ownership

### The Principle

Trustees should adopt, or ensure their investment managers adopt the Financial Reporting Council's stewardship code which aims to enhance the quality of engagement between institutional investors and companies and sets out the responsibilities of shareholders and agents.

A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles.

Trustees should report periodically to members on the discharge of such responsibilities.

Recognising the importance of Responsible Investment, the Trustee's approach to the consideration of Responsible Investment (which the Trustee sees as encompassing ESG, including climate change, and stewardship) are set out in the Statement of Investment Principles.

The Trustee also maintains a separate Responsible Investment Policy which sets out the Trustee's RI beliefs, its approach to incorporating ESG factors into the Scheme's investments and its exclusions policy.

During 2021 a Responsible Investment Sub-Group was formed to address the actions required to meet the new climate related regulations that came into force on 1<sup>st</sup> October 2021 and to progress the actions required for the Trustee to become more active within other areas of responsible investment.

The Trustee has set a net zero carbon aspiration for the Scheme.

Updates on the Trustees responsible investment activities are provided to members on an annual basis within the annual member statement.

## 6 Transparency and reporting

### The Principle

Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.

Trustees should provide regular communication to members in the form they consider most appropriate.

### The Trustee's Approach to transparency

Each of the above points is addressed within this document.

The Trustee of the Scheme has decided to split the documentation of its management into two distinct sections:

- 1 the formal SoIP covering the regulatory requirements;
- 2 the remainder of this document, which encompasses all of the additional information proposed by Myners.

This reflects the fact that the SoIP is a statutory requirement of the Pensions Act 1995 whereas the six principles included in this document form a voluntary code of good conduct. The Trustee believes that, collectively, these principles represent best practice and has set out in this document how it has interpreted these principles and put them into practice.

The Trustee will maintain the SoIP and this Myners Adherence Document and keep them under review to ensure that they continue to reflect current practice.

### Approach to reporting

The Trustee already advises members of the availability of the SoIP in its formal Annual Report, available to all Scheme members on request. The outcome of the Trustee's monitoring of the investment managers is incorporated in the Annual Reports together with details of any departures from any of the Myners Principles. Key information will be included in future communications with members, which are sent out annually.

## Appendix A – Myners compliance status table

	Guidance	Comment	Status
Effective Decision making	Who takes decisions	Trustee; sub-committee used from time to time	
	Sufficient skills, structures and processes	Agreed	
	Appropriate training provided	Annual training review	
	In house or advisory support sufficient	Aon Hewitt and Hymans Robertson LLP provide external advice	
	Investment sub-committee considered	Yes, sub-committee used as appropriate	
	Business plan drawn up	Yes	
	Separately compete actuarial / investment	Services tendered separately	
	Terms of reference specified	Covered in service agreement	
Clear Objectives	Overall objective based on liabilities	Yes	
	Parameters for e'er / e'ee contributions	Yes	
	Attitudes to risk and limits	Yes	
	Asset performance evaluations	Yes, monitoring in place	
	Managers' index benchmarks appropriate	Yes	
	Passive, active management considered	Yes	
	Benchmark guidelines considered	Yes	
	Manager mandates have performance objectives, benchmarks and risk constraints	Yes	
	Any asset types / classes excluded	Yes	
	Manager approach specified	Yes	
	Soft commission arrangements	Assessed for all managers	
	Transaction cost evaluation	Reporting provided by managers	
Objectives, risk tolerances compatible to allow genuine active strategies	Yes		
Risk & Liabilities	Level of priority given to asset allocation	Yes	
	Range of asset classes considered	Yes	
	Compatibility of assets / liabilities	Yes	
	Bespoke, not peer group	Yes, bespoke	
Performance measurement	Regular performance monitoring - fund	In place	
	Regular performance monitoring - managers	In place	
	Monitoring of advisers, service providers	In place	
	Monitoring Trustee's procedures, decisions and how they have interpreted advice	In place	

## HYMANS ROBERTSON LLP

	Guidance	Comment	Status
Responsible Ownership	Approach to activism	Delegated to fund managers with Trustee exclusion policy in place	
	Governance and voting procedures	Delegated to fund managers	
	Effectiveness of managers' and Trustee's governance approaches	Satisfactory	
Transparency & reporting	SIP reviewed and updated	Completed	
	SIP consultations taken place	Completed	
	Myners Adherence document in place	Completed	
	Myners Adherence document up to date	Completed	
	Managers, service providers consulted	Completed	
	Publish SIP, Myners Adherence	SIP and Myners available on request	
	Indicate results of performance monitoring	Completed	
	Non compliance documented, explained	Completed	

## Appendix B – PIC Terms of Reference

### Composition

The Trustee has established an Investment Committee (the 'Committee'), the membership of which shall be determined by the Trustee from time to time.

The present membership of the Committee is:

Tegs Harding (Chair)	(Trustee director)
John Cant	(Trustee director)
Peter Goshawk	(Trustee director)
Claire Jordan	(Trustee director)
Christopher Lewin	(Trustee director)
Edward McShane	(Trustee director)

A minimum of four Trustees is required on the Committee.

The Secretary to the Committee is provided by the Company.

### Buddying

To facilitate the education of the Trustee board as a whole on investment matters, each Committee member will 'buddy up' with one non-Committee member. The present buddy pairings are:

Committee member	Non-Committee member
Tegs Harding	Andrew Lynn
Peter Goshawk	
John Cant	Clare Reilly
Edward McShane	

### Terms of appointment

It is the responsibility of the Committee to

#### Manage the Investment Strategy

- Advise the Trustee on the investment strategy with the aim of providing funds to pay benefits and maintain funding levels over time, matched against the liability stream;
- Consider the relevance of financially material factors, including ESG (Environmental, Social and Governance) factors and climate risk, at different stages of the investment process;
- Clearly define the strategy including asset allocation changes, taking into account advice from Investment and actuarial advisors, and appropriate Company consultation;

## HYMANS ROBERTSON LLP

- Set investment objectives for Investment Advisor as required by the Competition and Markets Authority (“CMA”).
- Review performance of the Investment Advisor on a regular basis and undertake assessment against the investment objectives, present recommendations to the Trustee and replace where deemed necessary;
- Approve and submit Annual Compliance Statement to the CMA to confirm compliance with the Investment Consultancy and Fiduciary Management Market Investigation Order 2019.
- Establish agreed trigger points for asset allocation changes, monitor and take appropriate actions;
- Assess pension scheme investment related risks and ensure appropriate mitigation plans are developed and implemented; and
- Review ESG activity as part of the manager monitoring process with each investment manager and considers the impact of climate change on investment decisions and potential implications for the Scheme’s investments.
- Review performance of the DPS AVC arrangements

**Manage the Investment Managers against defined Investment Strategy**

- Decide and implement the appointment and removal of external investment managers and custodians, aligned to investment strategy and agreed asset allocation changes;
- Supervise the activities of the external investment managers and monitor their performance and risk against agreed benchmarks;
- Establish agreed parameters including timescales, for manager dismissal decision making;
- Monitor the performance of the custodians;
- Monitor compliance with the Myners Code of Conduct; and
- Report to the Trustee on the discharge of the Committee’s responsibilities.

The Committee has the power, within the existing investment strategy guidelines and objectives as approved by the Trustee from time to time to:

- Give directions to the external managers on behalf of the Trustee with regard to any matter requiring the consent of the Trustee or on which managers seek direction;
- Agree investment manager terms of reference (objectives, benchmarks, guidelines and remuneration);
- Appoint transition managers as required from time to time and agree the transition managers’ terms of reference; and
- Establish suitable arrangements for the management of the pension scheme’s uninvested cash and foreign exchange requirements.
- Approve governance documents to comply with developing investment regulations and responsible investment regulations

The Committee shall regulate its meetings and proceedings as it thinks fit, save that:

## HYMANS ROBERTSON LLP

- The Chair of the Committee shall be nominated and may at any time be removed by the Trustee;
- Notice of each meeting of the Committee shall be given to every member;
- The quorum for the transaction of business at a meeting of the Committee shall be three members present in person or by electronic means;
- Questions arising at any meeting of the Committee shall be determined by a majority and the Chair shall not have a casting vote; and
- Any member of the Committee may require any question to be referred for decision to the Trustee.

The PIC has also established a Responsible Investment Sub-Committee who have the responsibility to:

- Maintain an ongoing understanding of legislative changes and all minimum regulatory requirements to be adhered to by the Diageo Pensions Trust Limited
- Maintain a RI policy (beliefs statement) to be approved by the PIC and the Trustee Board
- Develop a project plan to ensure all TCFD reporting recommendations and manage implementation progress against the plan, providing regular status updates to the PIC / Trustee Board
- Consider longer term opportunities for RI intervention that extend beyond the minimum reporting and governance requirements, for approval by the PIC / Trustee Board
- Manage the RI budget approved by the PIC, promptly escalating any requirements for additional resourcing / funding to deliver agreed goals
- Appoint and manage external advisors directly supporting RI goals / activity
- Ensure appropriate focus for RI is brought to MMG meetings, and fund managers are clear on the DPS RI policy and our reporting and governance expectations
- Establish and maintain processes that allow the Trustees to satisfy themselves that those managing the scheme are assessing ESG related risks and opportunities on an ongoing basis
- Maintain oversight of RI related risks and opportunities and ensure appropriate mitigation plans are developed and kept up to date
- Identify the most effective ways to provide training for the Trustee Board to ensure the Trustee Board maintains the required knowledge of RI developments and associated reporting and governance requirements
- Identify RI key metric reporting requirements for approval by the PIC / Trustee Board, and establish reporting processes to report against approved metrics on required timescales

The Committee shall review the appropriateness and suitability of the scope of these Terms of Reference at least once every three years and, where appropriate, make recommendations for any amendments to the Trustee Board.