Diageo Lifestyle Plan

Pension Scheme Registry Number: 10274789

Trustee's Annual Report and Financial Statements
For the 18 Month Period From 1 January 2022 to 30 June 2023

Contents

Trustee and its Advisers	2
Trustee's Report	4
Plan Management	4
Investment Matters	12
Implementation Statement	17
Compliance Matters	20
Statement of Trustee's Responsibilities	21
Report on Actuarial Liabilities	22
Actuary's Certification of the Schedule of Contributions	26
Independent Auditor's Statement about Contributions	27
Independent Auditor's Report	28
Fund Account	32
Statement of Net Assets (available for benefits)	33
Notes to the Financial Statements	34

Trustee and its Advisers

The Trustee

The Trustee of the Diageo Lifestyle Plan ("the Plan") is Diageo Pension Trust Limited. The Directors during the period under review are set out below.

Employer Nominated	**Member nominated**
P Goshawk (Chairman)[2, 3]	J H Cant[2]
Trustee Nominated	J Donaldson (Resigned 27 September 2022)
C S Wehrle[1,2] (Resigned 30 November 2022)	A R Lynn[1, 3]
E McShane[1,2]	C Lewin[1, 2]
C Jordan[2]	C Reilly[3]
Independent Trustee Services – represented by Tegs Harding[2]	

[1]Audit Committee member

[2]Investment Committee member

[3]Member Services Committee member

The main committees of the Trustee Board are the Investment, Audit and Discretions Committees, the members of which, as at the end of the period under review, are identified above. Further information on the work of these Committees is provided on page 5.

Secretary and Registered Office:	A Kenealy Diageo Pension Trust Limited, 16 Marlborough Street, London, United Kingdom, W1F 7HS

Advisers

Sponsoring Employer:	Diageo plc (the Company)
Actuary:	J Miller FIA – Aon
Auditor:	KPMG LLP
Banker:	Lloyds Bank plc
Custodian:	Northern Trust Global Services Limited
Investment Adviser:	Hymans Robertson LLP
Life Insurance:	Canada Life Group Insurance
Solicitor:	Linklaters LLP

Trustee and its Advisers

Investment Managers:	*Managers of investments in which the Plan had interests prior to the transfer to the Diageo Pension Scheme:* Insight Investment Management (Global) Limited M&G Investment Management Limited (to 1 March 2023)

Administrator:

The administrator for the Plan is Capita Pension Solutions Limited for which contact details are as follows:

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

Telephone: 0333 222 0086

Email: diageopensions@capita.co.uk

Website: www.hartlinkonline.co.uk/diageo

Trustee's Report

The Trustee is pleased to present to members of the Plan its report together with the audited financial statements for the 18 month period from 1 January 2022 to 30 June 2023 ("the period under review"). The comparative period is for the year ended 31 December 2021. Following the signing of this annual report and financial statements, the Plan will be formally wound up. This will therefore be the final annual report and financial statements prepared for the Plan.

Plan Management

The Plan

The Plan is a cash balance scheme established in 2006, to provide benefits for the employees (and their dependants) of Diageo plc (the "Company") and its participating companies who are eligible to join.

The Plan closed to new employees joining the business on or after 1 January 2018 but remains open for existing employees as at 31 December 2017.

The following companies have formally participated in the Plan during the period under review:

Diageo plc
Diageo Global Supply IBC Limited
Diageo Great Britain Limited
Diageo Northern Ireland Limited
Diageo Scotland Limited
S&B Production Limited

The Plan is governed by a Trust Deed and Rules, the latest version of which was signed on 19 December 2017 and became effective from 1 January 2018 (as amended); copies are available on the Plan's website or on request from the Administrator. The Plan is a registered pension scheme for tax purposes.

All required information regarding the Plan has been given to The Pensions Regulator and the Pension Schemes Registry.

The Trustee

The Plan is established under a Trust and the power to appoint or remove a Trustee rests with the Company. The Company has appointed a Corporate Trustee, Diageo Pension Trust Limited, as the Trustee of the Plan. The Directors of the Trustee Company are set out on page 2 along with their advisers. The Directors of the Trustee Company have the power to appoint and remove Directors (subject to the next paragraph), with the exception of the Chairman, who is appointed by the Company.

In accordance with The Occupational Pension Schemes (Member Nominated Trustees and Directors) Regulations 2006, at least one third of the Directors are nominated and selected by members.

Both Independent Trustees Services Ltd, represented by Tegs Harding, and Peter Goshawk, who were appointed to the Trustee Board in January 2022 and January 2021 respectively, are professional Trustees, as defined by the Pensions Regulator. None of the other Directors are professional Trustees, as defined by the Pensions Regulator. During the period under review, Independent Trustees Services Ltd merged with Ross Trustees Services Ltd to form Independent Governance Group (IGG). The two brands will continue to operate under the IGG umbrella until later in 2023.

Trustee's Report

Plan Management (continued)

The Trustee (continued)

The primary duty of the Trustee is to manage the Plan in accordance with the governing documents and relevant legislation and, in doing so, to act in the interests of all members of the Plan.

The Pensions Act 2004 requires Directors to have knowledge and understanding of the law relating to pensions and trusts, the principles relating to the funding of occupational pension schemes and the investment of scheme assets. Directors are also required to have a working knowledge of their own pension scheme's policy documents so that they are able to use them effectively when carrying out their duties as Directors.

The Trustee Board attaches great importance to enabling all Trustee Directors to develop their knowledge and understanding of pension issues. All newly appointed Trustee Directors are required to pass the Pensions Regulator's Trustee toolkit soon after appointment. An annual training plan aims to ensure Trustee Directors continue to have the appropriate knowledge and understanding required under the Pensions Act. Any topical and current issues will be discussed as part of the agenda setting meetings with the advisers and any new training items will be brought to the table as they arise. The Trustee ensures the security of members' benefits by periodic actuarial valuations, a carefully selected investment strategy and detailed internal control procedures.

The Trustee met formally 8 times during the period. The Trustee is supported by an Investment Committee, an Audit Committee and a Member Services Committee (formerly the Discretions Committee), all of which met regularly during the period. The Committees make recommendations to the Trustee as appropriate.

The Investment Committee oversees the investment strategy of the Plan and deals with ongoing investment related issues on behalf of the Trustee. It reviews the performance of the Plan's investments overall, as well as the investment returns of the individual managers, and deals with all other investment related issues. The Committee is assisted by Hymans Robertson LLP, the Plan's professional investment adviser.

The Audit Committee oversees the Plan's governance, the services and internal controls of the Plan's Administrator and other advisers and the integrity of the financial statements, including specific areas of judgement and risk.

The Member Services Committee is responsible for exercising certain discretions under the rules of the Plan, as well as oversight of the third-party administration of the Plan, management of key projects relating to members' benefits and member engagement.

Plan Administration

The Plan is administered on behalf of the Trustee by Capita Pension Solutions Limited. Members can obtain information about their own pension benefits or further information about the Plan from Capita Pension Solutions Limited whose contact details are set out on page 3.

Hartlink Online also provides members with access to further details regarding the Plan and provides them with the facility to access their own personalised pension information, allowing them to securely view and check their pension record online.

Further details can be found online at https://www.hartlinkonline.co.uk/diageo and selecting Scheme Information and then the Diageo Pension Scheme - Lifestyle Section.

Trustee's Report
Plan Management (continued)

Member Options Exercise

During the period in review the active members of the Plan were given the option to opt out of the Plan and join the Diageo Pension Plan, a defined contribution scheme which is set up under a master trust with Scottish Widows. Members were offered enhanced employer contributions for the first 3 years and were given the option to transfer accrued benefits to the Diageo Pension Scheme. The offer closed on 31 March 2022, with 201 members choosing to opt into the Diageo Pension Plan from 1 April 2022. The bulk transfer of accrued benefits totalling £27m was made to Scottish Widows on 26 September 2022.

Plan Merger

On 9 May 2023, the Trustee executed a Transfer Agreement with the Trustee and the Principal Employer of the Diageo Pension Scheme ("the Scheme"). The Transfer Agreement provided for the bulk transfer of the Plan's assets into the Scheme, in exchange for that Scheme assuming responsibility for all the liabilities of the Plan. The decision to enter into the Transfer Agreement was taken by the Trustee following receipt of detailed legal and actuarial advice.

On 22 June 2023, in accordance with the Transfer Agreement, the transfer to the Scheme was completed, and all the liabilities of the Plan in relation to the accrued benefits of the Plan's members up to that date, were assumed by the Scheme from that date. With effect from that same date, the Trustee of the Scheme acquired legal ownership of 100% of the assets of Plan, to hold on trust for the benefit of the Scheme's beneficiaries (including the Plan's members), with the exception of assets to meet the expenses of the Trustee's professional advisers in connection with the winding-up of the Plan which were retained in the Plan (and, to the extent not used, transferred to the Scheme).

Also on 22 June 2023, the Principal Employer of the Plan gave notice to the Trustee, in accordance with the Plan's Rules, to terminate the Plan, and to wind-up the Plan as soon as reasonably practicable afterwards, once all of the assets of the Plan had been transferred to the Scheme, or otherwise used to meet expenses. Once the audited scheme accounts for the period to 30 June 2023 have been completed and signed, the Trustee and Principal Employer of the Plan will enter into a deed of determination confirming that the winding-up of the Plan has been completed.

The merger of the Plan and the Scheme will streamline the governance of the two pension arrangements by combining them. Under the terms of the Transfer Agreement, benefits for the Plan's members will be provided under the Scheme on the same basis immediately after the transfer as before, other than lump sum death benefits which will be payable, at the discretion of the Trustee of the Scheme, to a wider class of beneficiaries than under the Plan. The Plan's members who were accruing benefits under the Plan immediately before the merger will continue to accrue benefits on the same basis immediately after the merger. The merger will have no impact on the basis on which benefits under the Scheme will be provided to and in respect of existing members of the Scheme before the merger.

Trustee's Report
Plan Management (continued)

Financial Development of the Plan

The financial statements of the Plan for the period ended 30 June 2023 are set out on pages 32 to 43. The financial statements have been prepared and audited in accordance with Section 41(1) and (6) of the Pensions Act 1995. The report of the independent auditor, which is unqualified, is set out on pages 28 to 31.

Periods ended	**30 June 2023 £m**	**31 December 2021 £m**
Contributions paid in by the Company and members	54.1	31.3
Other Income	1.6	1.9
Benefits paid to members and payments in respect of leavers	(16.1)	(9.4)
Group transfers out	(284.4)	-
Administrative and other expenses	(1.9)	(1.0)
Net (decrease)/increase from dealings with members	**(246.7)**	**22.8**
Net returns on investments	(217.6)	8.2
Total (decrease)/increase in net assets for the period	**(464.3)**	**31.0**
Net assets at the start of the period	464.3	433.3
Net assets at the end of the period	**-**	**464.3**

Actuarial valuation

The actuary reports to the Trustee on whether there are sufficient assets in the Plan to meet the member benefits assuming the Plan continues as a going concern (technical provisions) and on contribution rates required to provide future benefits.

The Plan is subject to a full actuarial valuation every three years. The results of the last full actuarial valuation at 1 January 2022 revealed a deficit, with the Plan's assets representing 97% of its technical provisions. On a solvency basis, which assumes the Plan was discontinued at the valuation date, the funding level was 82.1%. A copy of the formal 2022 valuation report is available to members and can be downloaded from the Plan's website or requested from the Administrator.

From 1 January 2022 employer contributions are paid at the agreed rate of 24% of pensionable pay. The rate of contributions payable by members is 6% of pensionable pay. The actuary's latest certification of the Schedule of Contributions is set out on page 26 and the independent auditor's statement about contributions is set out on page 27.

To eliminate the funding shortfall the Company agreed a Recovery Plan with the Trustees and an additional £15.9m was paid as a deficit contribution in October 2022.

Following the decision to merge the Plan with the Diageo Pension Scheme, and subsequently wind up the Plan, no further Actuarial Valuations will take place.

Plan Management (continued)

Internal Control and Procedures

The Trustee is required to act in accordance with the Trust Deed and Rules of the Plan within the framework of pension and trust law and in accordance with the principles of the Code of Practice on Internal Controls issued by the Pensions Regulator. It is responsible for safeguarding the assets of the Plan and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. Accordingly, the Trustee has ensured that appropriate controls are in place to protect the assets. The main features of the control system include:

Detailed Scrutiny: Comprehensive reporting requirements agreed with the Administrator ensure that the Trustee is kept fully up-to-date on any significant issues of a financial or administrative nature.

The Investment Committee continues to monitor closely the performance of the Plan's investments and ensures that the investment managers continue to work within guidelines set by the Trustee. The investment managers are monitored and assessed regularly to review performance and to discuss proposed strategy.

External Custody: Northern Trust Global Services Limited (Northern Trust) is the Plan's custodian. Northern Trust is responsible for the settlement of all day-to-day investment transactions, the collection of investment income and related tax and the safe custody of the investments which it holds directly on behalf of the Plan. Northern Trust is also responsible for reporting the market value of all the Plan's assets. As a professional custodian, Northern Trust employs a rigorous system of controls to ensure the safekeeping of assets with which it has been entrusted.

The Trustee bank account for day to day administration is held with Lloyds Bank plc, not with Northern Trust. Separate arrangements are in place to safeguard these assets.

Specific Rules: The Trustee has formal written agreements with its investment managers, banks and custodian. There are specific lists of authorised signatories on whose instruction the investment managers, banks and custodian can act. The investment management agreements set clear limits on the manager and the most important of these cover:

- No more than 5% of the total Plan assets can be invested in any one security.
- Limits on exposure to derivatives.

The Trustee also has a written agreement detailing all aspects of the services provided by the Administrator.

Trustee's Report

Plan Management (continued)

Plan Membership

As at 31 December 2021, the Plan had 4,923 members (including 8 members who are covered for lump sum death in service benefit only). The composition of the Plan membership and movements during the period up until the bulk transfer out on 22 June 2023 are shown below:

	Employee members	Deferred pensioners	Death benefit only^	Total
As at 31 December 2021	2,286	2,629	8	**4,923**
New joiners*	24	2	-	**26**
Retirements**	(20)	(25)	-	**(45)**
Deaths	(2)	(4)	-	**(6)**
Leavers with refund or transfer out***	(235)	(67)	-	**(302)**
Leavers with deferred pension entitlements	(208)	208	-	**-**
Change in death benefit only members	-	-	-	**-**
Bulk transfer out to Diageo Pension Scheme	(1,845)	(2,743)	(8)	**(4,596)**
As at 30 June 2023	**-**	**-**	**-**	**-**

* Persons who were employed by the company before the Plan closed are still allowed to join the Plan. New starters with the company after that date are not allowed to join.

** In accordance with the rules of the Plan, benefits not taken as cash are purchased on the open market. As such, there are no pensioner members within the Plan.

*** Includes 201 members transferred to the Diageo Pension Plan, as disclosed on page 6

^ Members covered for lump sum death in service benefit only.

Plan Benefits

Members build up a Retirement Account within the Plan.

The Retirement Account is increased each year by a credit equal to 25% of the member's Pensionable Pay, subject to caps on Pensionable Pay of £200,000 for credits applied from 1 April 2011 and £160,000 for credits applied from 1 January 2014, plus inflationary increases. The increases to the members' Retirement Account are applied annually on 31 December and inflationary increases are applied to the value of the Retirement Account at the previous 1 January on the following basis:

- any credits to the Retirement Account up to 30 June 2012 are increased in line with the rise in the Retail Prices Index (RPI), up to a maximum of 5% a year; and
- any credits to the Retirement Account from 1 July 2012 are increased in line with the rise in the Consumer Prices Index (CPI), up to a maximum of 5% a year.

Trustee's Report

Plan Management (continued)

Plan Benefits (continued)

On retirement, the Trustee will use a member's Retirement Account to provide retirement benefits in the form requested by the member. The benefits can be provided as:

- a cash lump sum;
- an annuity (a pension) from an insurance company;
- a transfer value to another pension arrangement to allow flexi-access drawdown; or
- a combination of the above.

In the event of a member's death in service, a lump sum is payable. The amount is the greater of the value of the member's Retirement Account or six times Pensionable Pay during the year to 31 December before death. For members covered for a death in service lump sum only, the lump sum will generally be six times basic pay. The Trustee has full discretion as to whom to make this payment taking account of the member's wishes. The lump sum benefit payable on death in service is insured under a separate policy with Canada Life.

Further details of these benefits are contained in the Rules of the Plan, which are also summarised in the members' Plan Guide.

Contributions

The Company made a lump sum contribution of £15.9M in October 2022 to address the deficit in the 1 January 2022 valuation.

The Company contribution rate from 1 January 2022 is 24% of Pensionable Pay with the member's rate of contribution at 6% of Pensionable Pay.

The Company offers a salary sacrifice arrangement, whereby an active member's salary is reduced by the amount of that individual's pension contribution, with the member's pension contributions then paid to the Plan directly by the Company.

The contribution rates for members and the employers are documented in the Schedule of Contributions that was in force over the period. A copy of the actuary's certification of the latest Schedule of Contributions is included on page 26.

The Trustee's summary of contributions in respect of the period ended 30 June 2023 and the independent auditor's statement about contributions are set out on pages 11 and 27 respectively.

All contributions due from members and the employers for the period ended 30 June 2023 have been received by the Plan by the date required in the Schedules of Contributions.

Statement of Trustee's responsibilities in Respect of Contributions

The Plan's Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates of contributions payable towards the Plan by or on behalf of the employer and the active members of the Plan and the dates on or before which such contributions are to be paid. The Trustee is also responsible for keeping records of contributions received in respect of any active member of the Plan and for ensuring that contributions are made to the Plan in accordance with the schedule.

Trustee's Report

Plan Management (continued)

Trustee's Summary of Contributions Payable under the Schedules of Contributions in respect of the Period ended 30 June 2023

This summary of contributions has been prepared by, and is the responsibility, of the Trustee. It sets out the employer and member contributions payable to the Plan under the Schedules of Contributions, certified on 1 August 2019 and 18 January 2023, which was effective during the period under review. The Plan's auditor reports on contributions payable under the Schedules of Contributions in the auditor's statement about contributions.

During the period ended 30 June 2023 the contributions payable to the Plan under the Schedules of Contributions were as follows:

Employers:	**£'000**
Normal contributions (including those made through salary sacrifice)	37,524
Deficit funding contribution	15,900
Employee:	
Normal contributions	634
Contributions payable under the Schedules of Contributions and reported in the accounts	**54,058**

Following the signing of the Transfer Agreement on 9 May 2023, all contributions that were payable to the Plan under the Schedule of Contributions signed on 18 January 2023 are now payable to the Diageo Pension Scheme.

Capita Cyber Incident

Capita Pensions Solutions Limited (Capita), the administrator of the Plan, have informed the Trustee that Capita experienced a cyber incident following an unauthorised access to Capita's systems on or around 22 March 2023, before being interrupted by Capita on 31 March 2023.

The Trustee was notified by Capita on 3 May 2023 and 8 June 2023 that personal data which Capita processes on behalf of the Trustee has been part of the data exfiltrated as a result of the cyber incident. The Trustee is taking action to comply with its regulatory obligations, including informing relevant regulators and communicating with affected members.

Investment Matters

The following section outlines the arrangements in place for the Plan's investment assets prior to their transfer to the Diageo Pension Scheme ("DPS")

Investment Committee

The Investment Committee was appointed by the Trustee and operated under its own terms of reference. The Committee was assisted by Hymans Robertson LLP, the Plan's professional investment adviser.

Investment strategy and developments over the period

The primary objective of the Plan was to provide members with a Retirement Account that could be used at retirement to provide benefits in the form requested by the member. In addition, it provided benefits on death, before retirement, for their dependants. The Trustee's overall investment objective was to manage the assets of the Plan prudently to ensure that the benefits promised to members were provided when they fall due.

The Trustee translated its investment objective into a strategic (asset allocation) benchmark for the Plan. At the start of the period, on 1 January 2022, the benchmark allocation consisted of 50% of the assets allocated 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 took account of the liability profile of the Plan, together with the level of disclosed surplus or deficit.

The value of the Plan's actuarial liabilities, being benefits payable to members in future years, was significantly influenced by the rates of interest and inflation. Accordingly, as part of the investment strategy, the Trustee put in place a liability hedging programme, designed to mitigate the impacts on the Plan of changes in the expectations for interest rates and inflation. The programme was implemented using Insight's pooled LDI funds (with the underlying assets including gilts, gilt repurchase agreements and other suitable financial instruments).

Within the LDI funds range, the Plan used '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 interest for the 'loan' to the banks. This is a commonly used risk-managed investment practice for pension schemes such as this Plan.

The first half of 2022 was challenging for investment markets, with economic momentum slowing and geopolitical events and inflation concerns dominating the headlines. A robust start to the third quarter soon turned as the war between Russia and Ukraine intensified, and inflation remained stubbornly high, the latter in particular prompting a succession of interest rate increases from central banks.

The volatility and uncertainty continued into the fourth quarter of the year with the fallout from the UK's mini budget driving sterling weakness and rapid increase in gilt yields. The impact was keenly felt in the UK government bond market with valuations experiencing significant declines, however the uncertainty and concerns also had a ripple effect on other asset classes, including corporate bonds and asset backed securities, with overall investment performance experiencing strong headwinds.

Investment Matters (continued)

Investment strategy and developments over the period (continued)

The fall in value of the UK government bonds used as collateral within the liability hedging programme meant that collateral top-ups were required to maintain the Plan's target hedging level. The Trustee initially decided to rebalance the Plan's assets back in line with the strategic benchmark to improve the collateral position of the LDI portfolio and bring the Plan's actual risk / return profile closer in line with the Trustee's target.

As rising gilt yields continued to deplete the Plan's LDI collateral (especially in the immediate aftermath of the UK mini budget announcement), the Trustee instructed the full sale of the Plan's credit assets to source the additional collateral and improve resilience of the LDI portfolio. The Trustee's overarching aim was to ensure stability of the Plan's funding level (by maintaining liability hedging) during this volatile period.

Since the Plan's two credit mandates had relatively long notification and settlement periods for trading, it was not possible to process the full disinvestments on time. Therefore, the Company stepped in to provide support for the Plan. First, the deficit contribution was paid earlier in full, and then the Plan was granted access to a short-term credit facility of up to £150m to help with ongoing liquidity management.

Given the more volatile market conditions and the new collateral requirements emerging in the industry as a result, the Trustee decided to reduce the target (and the actual) hedge ratios to interest rates and inflation from c.90% to c.70% (relative to gilts+0.5% p.a. liabilities) in October 2022. This approach was considered appropriate for the Plan given the balance of risks (interest rates and inflation risk vs liquidity) at the time.

All funds borrowed using the credit facility were repaid in November 2022 with proceeds from the sale of the credit mandates, mainly from the M&G ABS fund which was sold at the time. The credit facility itself was released in December 2022, when the Plan's collateral sufficiency was strong and stable enough to not require the extra support.

Improved market conditions and the collateral position of the Plan allowed the target (and the actual) hedge ratios to interest rates and inflation to be brought back up to the previous target of 90% (relative to gilts+0.5% p.a. liabilities) on 19 December 2022.

Given the more illiquid nature of the assets, sales of the Plan's holdings in the M&G Senior Secured Loan Fund continued until March 2023.

On 22 June 2023, the Plan's assets and liabilities were transferred to the Diageo Pension Scheme when the two schemes were officially merged. A strategy review was carried out shortly before the merger to ensure the investment strategy and the de-risking plans previously adopted for the Diageo Pension Scheme remained appropriate under the new circumstances.

Investment managers

The Trustee delegated day to day management of the assets to the Plan's investment managers appointed by the Trustee for this purpose. During the period, the Trustee used Insight Investment Management (Global) Limited and M&G Investment Management Limited to manage the Plan's assets. The terms of the remuneration for the Plan's investment managers were set out in each of their management agreements which were approved by the Trustee.

The strategic benchmark was reflected in the benchmarks given to individual investment managers which, in aggregate, were intended to deliver the overall strategy.

Trustee's Report

Investment Matters (continued)

Investment managers (continued)

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

Due to the developments and actions discussed above, the actual asset allocation moved away from the strategic benchmark. On completion of the merger with the Diageo Pension Scheme on 22 June 2023, all of the Plan's assets were invested in line with the Scheme's strategic asset allocation and used to rebalance the allocation to the LDI portfolio closer to its target.

Details of the Trustee's arrangements with asset managers, including performance management, incentives, and remuneration policies, can be found in the SIP.

Investments

The total net investments of the Plan at 22 June 2023 (i.e. immediately before the merger with the Diageo Pension Scheme) were £256.4 million (31 December 2021: £461.7 million).

The Plan's total net investments may be summarised as follows:

	As at 22 June 2023		As at 31 December 2021	
Manager*	£m	%	£m	%
Insight				
LDI solution funds	**229.9**	**89.7**	242.2	52.5
Insight				
Liquidity fund	**26.5**	**10.3**	4.1	0.9
M&G				
Syndicated senior secured commercial loans fund	**-**	**-**	107.3	23.2
M&G				
Asset backed securities fund	**-**	**-**	108.1	23.4
Total	**256.4**	**100**	461.7	100.0

* Total allocations to the mandates include cash balances.

On 22 June 2023, the total assets listed above were transferred to the Diageo Pension Scheme.

Marketability of Investments

At 22 June 2023, £256.4 million (100%) (2021: £354.4 million (76.8%)) of the above investments (being the Insight LDI and Liquidity funds (and the M&G ABS mandate in 2021 only)) were invested in pooled investment vehicles where the underlying investments are considered to be marketable on a short term basis.

On completion of the merger with the Diageo Pension Scheme, the Plan's funds were 100% invested in the Scheme's segregated LDI portfolio which is also managed by Insight. The underlying investments are considered to be marketable on a short term basis.

Diversification of Investments

The assets held by the Plan within each asset class were well diversified, that is, there was no single investment within each asset class that was material in the context of the Plan as a whole.

Trustee's Report

Investment Matters (continued)

Self-Investment

The investment managers were permitted to invest in securities issued by the company, Diageo plc, to the extent that the security fell within their investment mandate. There were no employer related investments during the period.

Code of Myners Principles

The Trustee applied high standards of investment governance. It complied with all elements of the Myners Principles which recognised it was in all parties' interests if the Plan operates to standards of investment decision-making and governance identified as best practice.

Review of Investment Performance

The Plan's investment return (gross of fees) is shown below. Performance is measured by the custodian, Northern Trust Global Services Limited.

Fund and total Plan performance is shown to 30 June 2023 despite full disinvestment on 22 June due to reporting limitations. It is not expected that the difference in reporting period will have a material impact on the reported performance.

For the M&G ABS and Senior Secured loan fund, which were disinvested from at the end of November 2022 and March 2023 respectively, performance is shown to the disinvestment date with assumed zero performance to 30 June 2023. Performance for both funds exclude interest earned on residual cash until formal account closure.

Manager	**12 months (%)**	**3 years (% p.a.)**	**5 years (% p.a.)**
Insight			
LDI solution funds (LDI portfolio)	*(48.6)*	*(38.1)*	*(17.7)*
Benchmark	*(48.6)*	*(38.1)*	*(17.7)*
M&G*			
Syndicated senior secured commercial loans fund	*7.0*	*3.0*	*2.3*
Benchmark	*2.0*	*0.8*	*0.8*
M&G**			
Asset backed securities (ABS) fund	*(0.6)*	*0.6*	*0.7*
Benchmark	*0.8*	*0.5*	*0.6*
Total	*(23.2)*	*(18.1)*	*(6.8)*
Benchmark	*(27.5)*	*(20.2)*	*(8.1)*

Performance returns at the Plan level were negative for the previous one, three, and five year periods, however outperformance against benchmark returns was achieved across all periods.

The LDI portfolio was the main detractor to the Plan's overall absolute returns. However, this was expected given the portfolio was designed to mirror changes in the value of the liabilities which reduced significantly due to the material increases in gilt yields since the beginning of 2022.

The M&G Senior Secured loan fund delivered positive performance and outperformed its benchmark (SONIA) over all periods, to its termination in March 2023.

The M&G ABS fund returned negative performance between 1 July 2022 and 30 November 2022 (when all funds were disinvested), however across the longer term the fund achieved small absolute positive returns. The fund underperformed its benchmark over one year but finished the three and five year periods slightly ahead of SONIA returns.

Trustee's Report

Investment Matters (continued)

Statement of Investment Principles

Under the Pensions Act 1995, the Trustee was required to put in place, and to review triennially, a formal statement of the Plan's investment principles covering its approach to investing the Plan's assets. In practice the Trustee has reviewed this statement annually. The Statement of Investment Principles was last reviewed in June 2023 to reflect the merger between the Plan and the Scheme. The current version is available on the Plan's website.

Departures from Investment Principles

To the best of its knowledge, the Trustee can report that there had not been any departure from the SIP by the Plan's investment managers during the period to 22 June 2023.

Stewardship

The Trustee endorsed the principles of the UK Stewardship Code 2020. In appointing or reviewing its investment managers, the Trustee considered whether they are signatories to the Code. Once a year, the investment managers were required to confirm compliance to the Code or to report any exceptions, which were then considered by the Trustee.

Responsible Investment Considerations

The Trustee considered Responsible Investment, defined as ESG (environmental, social and governance) impacts, including those of climate change, and the requirement for asset owners and investment managers to consider stewardship. The Trustee's approach to the consideration of ESG risks, climate risk and stewardship is set out in the Plan's SIP.

The Trustee recognised that the consideration of financially material factors, including ESG factors, was relevant at different stages of the investment process. The Trustee explicitly acknowledged the relevance of ESG factors in framing its investment beliefs and these beliefs are detailed in the Trustee's separate Responsible Investment policy and reflected in the broader implementation of strategy.

The Trustee recognised that stewardship encompassed the exercise of voting rights, engagement of investment managers with the entities they invested in, engagement with investment managers and the monitoring of compliance with agreed policies. The annual Implementation Statement describes how the Trustee has complied with its stewardship policies over the period under review.

Custodian Arrangement

The custodian for the Plan was Northern Trust Global Services Limited.

The custodian was responsible for the safekeeping of share certificates and other documentation relating to the ownership of listed investments, settlements of trades and income collection.

Implementation Statement

Statement of Compliance with the Diageo Lifestyle Plan's Stewardship Policy for the period 1 January 2022 to 22 June 2023.

Introduction

This is the Trustee's statement prepared in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019. This statement sets out how the Trustee has complied with the Plan's Stewardship Policy (as set out in the current Statement of Investment Principles approved on 30 November 2022) during the period from 1 January 2022 to 22 June 2023.

Stewardship policy

The Trustee's Stewardship (voting and engagement) Policy sets out how the Trustee will behave as an active owner of the Plan's assets which includes the Trustee's approach to;

- the exercise of voting rights attached to assets; and
- understanding engagement activity, including how the Trustee monitors and engages with its investment managers and any other stakeholders.

The Trustee's Stewardship Policy has been reviewed on an annual basis in line with the Plan's Statement of Investment Principles (SIP) review, which was last completed in November 2022. There were no changes to the Trustee's Stewardship Policy made over the last year. The Trustee has separately approved an Exclusions Policy which sets out investments to be excluded from the investible universe for the Plan as these are in opposition to the Trustee's Responsible Investment Policy. The Trustee is satisfied that the Plan's investment managers complied with this Exclusions Policy over the last year.

On 22 June 2023, the Plan merged with the Diageo Pension Scheme, managed by the same Trustee. On 7 July 2023, the Trustee completed another review of the SIP (including the Stewardship Policy) and approved a new version for the merged scheme. The Trustee's existing Responsible Investment and Exclusions Policies also continue to apply following the merger. The Trustee reviews all of these documents on a regular basis.

The Trustee has delegated engagement activity in respect of the underlying assets to the Plan's investment managers. The Trustee believes it is important that its investment managers take an active role in the supervision of the companies in which they invest by engaging with the management on issues which affect a company's financial performance.

Policy implementation

The Trustee's own engagement activity is focused on dialogue with the investment managers which is undertaken in conjunction with the investment adviser. The Trustee meets regularly with its managers and engagement activities are reviewed periodically at these meetings. In addition, the Trustee considers managers' exercise of their stewardship through additional reporting provided.

The Trustee also monitors its compliance with its Stewardship Policy on a regular basis and is satisfied that it has complied with the Plan's Stewardship Policy over the period covered by this statement.

Voting activity

The Plan did not invest in public equities over the period and therefore had no exposures to mandates which carry any voting rights. As a result, there was no need for the Trustee to monitor voting activity for the Plan.

Engagement activity

The Trustee holds regular monitoring meetings with the investment managers. The Trustee engages with the managers on a number of areas including responsible investment and stewardship issues which are discussed in further detail. Over the period covered by this statement, the Trustee met with each of the Plan’s managers at least once. The managers also maintained regular dialogue with Hymans Robertson, the Plan’s Investment Adviser.

At each meeting with its managers, the Trustee sets a comprehensive agenda to assist the Trustee in holding each manager to account. The agenda covers a wide range of topics including review of short- and long-term performance in the market context, market outlook, risks and opportunities, portfolio transaction costs and responsible investment including stewardship. During the period of heightened market volatility after the UK mini-budget announcement in September 2022, the Trustee maintained regular communication with the Plan’s LDI manager and carried out a comprehensive review of market events and their impact on the Plan at the meeting in November.

At the regular monitoring meetings, managers are asked to provide details of any updates in relation to their responsible investment and stewardship policies and to confirm whether any investments breach or contradict the Trustee’s Responsible Investment Policy (including the Exclusions Policy). The Trustee also asks the managers to illustrate by means of examples where ESG issues have been taken into account in decision making for the portfolio.

The Trustee has also formed a Responsible Investment Sub-Group (“RI Sub-Group”) to take forward specific ESG actions with each manager and to report progress back to the Trustee. Over the period, the RI Sub-Group met with all of the Plan’s managers. Key areas of discussion have included managers’ abilities to quantify the ESG and specifically climate change risk within the Plan’s portfolios, the integration of these risks and opportunities into the investment process, each manager’s ability to comply with the Trustee’s new Exclusions Policy, Responsible Investment related collaborations and initiatives each manager has contributed to and any targets the Plan’s managers have put in place for the assets they manage.

Manager engagement activity

The Trustee does not engage directly but expects its investment managers to engage with key stakeholders relating to its investments in order to consider the management of conflicts of interest, improve corporate behaviours, improve performance and mitigate financial risks.

The nature of the assets permitted in the LDI portfolio (government bonds and cash) meant there was limited scope for manager engagement on ESG matters. Nevertheless, where relevant, the Plan’s LDI manager looked to engage with the government and regulators on governance issues and relevant consultations.

For the remaining investment mandates, the Plan’s investment managers held a number of meetings with investee companies to engage on a number topics including:

- Improving ESG integration and reporting on ESG metrics within asset-backed securities and leveraged loans.
- Improving gender diversity.
- Reviewing independent ESG ratings practices.

Positive outcomes were reported from the above-mentioned engagements.

Manager engagement activity (continued)

During the period, the Trustee sold down all of the Plan’s ABS and leveraged loans holdings, with all disinvestment proceeds being reinvested in the LDI portfolio. These decisions were taken in light of the extreme market movements at the end of September and in early October 2022, with an aim of stabilising the Plan’s deficit (through investing the vast majority of assets in the LDI portfolio). As the work on merger with the Diageo Pension Scheme progressed in the first half of 2023, the Trustee was mindful of streamlining the investment strategy as much as possible (by only holding one investment portfolio) in order to simplify the merger process. The Trustee reviewed the investment strategy of the Diageo Pension Scheme in light of the merger and concluded that it remains appropriate under the new circumstances.

Review of policies

A standard approach to reporting on ESG factors across all managers has been adopted through the use of a portfolio mapping document, to enable more efficient monitoring of ESG activity. It summarises each manager’s ESG policy and their progress to continuously improve the Trustee’s ESG risk management framework. This document includes each investment managers’ adherence with key ESG related codes and policies, including the UK Stewardship Code, and UNPRI plus associated ratings. It also sets out the key climate related risks and opportunities identified within each mandate. The RI-Sub Group maintains the portfolio mapping document and reports its finding to the Trustee.

As part of the Trustee’s manager monitoring meetings, managers are asked to cover any changes to their responsible investment and stewardship policies.

The Trustee and its advisors remain satisfied that the responsible investment policies of the managers and, where appropriate, the voting policies were suitable for the Plan over the period covered by this statement.

Compliance Matters

The purpose of this Section is to provide information, which is required to be disclosed in accordance with Schedule 3 of The Occupational Pension Schemes (Disclosure of Information) Regulations 1996 or voluntarily by the Trustee. The information deals with matters of an administrative nature.

Transfer Values

Transfer values are calculated and verified as required under the provisions of the Pensions Act 1993.

Taxation

The Plan is a registered pension scheme under Chapter 2 of part 4 of the Finance Act 2004.

MoneyHelper

MoneyHelper (formerly The Money and Pensions Service (MaPs)) was created in 2019 as a single body providing information to the public on matters relating to workplace and personal pensions.

Website: https://www.moneyhelper.org.uk Email: pensions.enquiries@moneyhelper.org.uk
Tel: 0800 011 3797

Pensions Ombudsman

The Pensions Ombudsman may investigate and determine any complaint or dispute of fact or law in relation to an occupational pension scheme and can be contacted at:

10 South Colonnade, Canary Wharf, London, E14 4PU

Telephone: 0800 917 4487

Pensions Regulator

The Pensions Regulator is able to intervene in the running of schemes where trustees, employers or professional advisers have failed in their duties.

The Pensions Regulator may be contacted at:

Telecom House

125-135 Preston Road

Brighton

BN1 6AF

Telephone: 0345 600 0760

Pension Tracing

A pension tracing service is carried out by the Department for Work and Pensions. The Pension Tracing Service can be contacted at:

The Pension Service 9, Mail Handling Site A, Wolverhampton, WV98 1LU

Telephone: 0800 731 0193

Statement of Trustee's Responsibilities

The audited financial statements, which are required to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Plan members, beneficiaries and certain other parties, audited financial statements for each Plan period which:

(i) show a true and fair view of the financial transactions of the Plan during the Plan period and of the amount and disposition at the end of the Plan period of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Plan period; and

(ii) contain the information specified in the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice Financial Reports of Pension Schemes.

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. The Trustee is also responsible for:

- assessing the Plan's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless they either intend to wind up the Plan or have no realistic alternative but to do so; and
- making available each year, commonly in the form of a Trustee's annual report, information about the Plan prescribed by pensions legislation, which the Trustee should ensure is fair and impartial.

The Trustee also has certain responsibilities in respect of contributions which are set out in the statement of Trustee's responsibilities accompanying the Trustee's summary of contributions.

The Trustee is responsible for such internal control as are determined to be necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonable to safeguard the assets of the Plan and to prevent and detect fraud and other irregularities.

The Trustee is responsible for the maintenance and integrity of the Plan and financial information included on the Plan's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Report on Actuarial Liabilities

Under Section 222 of the Pensions Act 2004, the Plan is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits to which members are entitled based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the Employer and set out in the Statement of Funding Principles, which is available to Plan members on request.

The most recent full actuarial valuation of the Plan was carried out as at 1 January 2022. This showed that on that date:

- The value of the Technical Provisions was: £478.5 million
- The value of the Plan's assets at that date was: £464.3 million

The method and significant actuarial assumptions used to determine the technical provisions as at 1 January 2022 are set out in the Appendix to the Statement of Funding Principles and summarised below.

Method

The actuarial method used in the calculation of the technical provisions is the Projected Unit Method with a three-year control period.

Significant Actuarial Assumptions

Financial assumptions approach: The approach used in determining each of the financial assumptions for calculating the technical provisions is set out below. The assumptions vary depending on when the expected payment is made, i.e. they are "term dependent". Note that as this is a retirement cash balance plan, a number of assumptions that normally apply to defined benefit schemes are not relevant.

RPI Inflation: The implied RPI inflation will be taken to breakeven inflation as indicated by the difference between yields on conventional and index-linked UK Government bonds (gilts).

CPI Inflation: The assumption is derived at the valuation date by deducting 0.75% p.a. from the RPI inflation assumption to 2030 and in line with RPI inflation assumption thereafter. The difference between the long-term assumptions for RPI and CPI inflation may vary over time to reflect changing views of long-term structural differences between the calculation of RPI and CPI inflation at the date subsequent calculations are carried out.

Discount rate: At retirement the Trustee will use the member's retirement account to purchase an insurance policy, therefore only a pre-retirement discount rate is required in regard to calculating the technical provisions and employer contributions. This discount rate has been set equal to the Fixed Interest Gilt yield curve plus 0.5% per annum at the valuation date.

Rate of increases to retirement balances: Derived from the underlying inflation assumption, allowing for the maximum annual increase of 5% (subject to a floor of 0% p.a.) and for inflation to vary from year to year. Benefits accrued to a current active member's retirement account up to 30 June 2012 will increase in the future in line with the rise in RPI up to 5% each year, subject to a floor of 0% each year. Benefits accrued to a current active member's retirement account from 1 July 2012 will increase in the future in line with the rise in CPI up to 5% each year, subject to a floor of 0% each year.

Report on Actuarial Liabilities (continued)

Significant Actuarial Assumptions (continued)

Financial assumptions summary: The following spot yields have been used for the technical provisions calculations as at 1 January 2022, calculated using the methodology set out above:

Term	Discount	Salary increases	RPI price	CPI price	LRPI pension	LCPI pension
1	1.01%	5.49%	5.49%	4.68%	4.91%	4.49%
2	1.11%	5.04%	5.04%	4.26%	4.63%	4.14%
3	1.23%	4.87%	4.87%	4.10%	4.52%	4.00%
4	1.23%	4.56%	4.56%	3.80%	4.28%	3.72%
5	1.24%	4.37%	4.37%	3.61%	4.13%	3.54%
6	1.29%	4.25%	4.25%	3.50%	4.03%	3.44%
7	1.32%	4.19%	4.19%	3.43%	3.97%	3.38%
8	1.37%	4.08%	4.08%	3.32%	3.87%	3.27%
9	1.43%	4.08%	4.08%	3.37%	3.86%	3.31%
10	1.50%	4.09%	4.09%	3.46%	3.86%	3.36%
11	1.55%	4.10%	4.10%	3.53%	3.86%	3.41%
12	1.58%	4.05%	4.05%	3.52%	3.81%	3.40%
13	1.60%	3.98%	3.98%	3.49%	3.74%	3.37%
14	1.63%	3.99%	3.99%	3.54%	3.74%	3.40%
15	1.67%	4.01%	4.01%	3.59%	3.75%	3.43%
16	1.68%	4.00%	4.00%	3.60%	3.73%	3.43%
17	1.67%	3.96%	3.96%	3.58%	3.69%	3.41%
18	1.70%	3.91%	3.91%	3.56%	3.65%	3.39%
19	1.72%	3.89%	3.89%	3.56%	3.62%	3.38%
20	1.72%	3.86%	3.86%	3.54%	3.59%	3.36%
21	1.72%	3.81%	3.81%	3.50%	3.54%	3.33%
22	1.73%	3.78%	3.78%	3.49%	3.52%	3.31%
23	1.73%	3.75%	3.75%	3.48%	3.49%	3.29%
24	1.74%	3.73%	3.73%	3.46%	3.47%	3.28%
25	1.73%	3.68%	3.68%	3.42%	3.42%	3.24%
26	1.68%	3.62%	3.62%	3.38%	3.38%	3.20%
27	1.66%	3.60%	3.60%	3.36%	3.35%	3.19%
28	1.65%	3.57%	3.57%	3.35%	3.33%	3.17%
29	1.62%	3.55%	3.55%	3.33%	3.31%	3.15%
30	1.63%	3.52%	3.52%	3.31%	3.28%	3.13%
31	1.63%	3.47%	3.47%	3.27%	3.25%	3.10%
32	1.61%	3.43%	3.43%	3.23%	3.21%	3.07%
33	1.59%	3.38%	3.38%	3.19%	3.17%	3.04%
34	1.55%	3.34%	3.34%	3.16%	3.14%	3.01%
35	1.55%	3.33%	3.33%	3.15%	3.12%	3.00%
36	1.52%	3.31%	3.31%	3.14%	3.11%	2.98%
37	1.48%	3.29%	3.29%	3.11%	3.09%	2.97%
38	1.44%	3.26%	3.26%	3.09%	3.06%	2.95%
39	1.45%	3.23%	3.23%	3.07%	3.04%	2.93%
40	1.46%	3.21%	3.21%	3.05%	3.02%	2.91%
41	1.44%	3.19%	3.19%	3.03%	3.00%	2.89%
42	1.42%	3.17%	3.17%	3.02%	2.99%	2.88%

Report on Actuarial Liabilities (continued)

Significant Actuarial Assumptions (continued)

Additional assumptions for employer contributions: In determining the employer contributions the same assumptions will be used as those for calculating the technical provisions together with the additional financial assumptions described below.

Rate of pay increases: This will be set equal to the inflation assumptions plus an allowance for promotional increases.

Expenses: An allowance will be included in the employer contribution rate, to cover the Plan's administration expenses, including the payment of the PPF levies. This allowance has been set as 0.4% of pensionable pay.

Expected return on assets: An allowance of 0.6% p.a. will be made for the expected outperformance of the Plan's assets compared to the discount rate in the recovery plan (i.e. a total of 1.1% p.a. above the gilt yield curve) from the valuation date to the end of the period covered by the Schedule of Contributions.

Pre-Retirement mortality	Males: Standard table AMC00, scaling = 80% Females: Standard table AFC00, scaling = 80% Sample rates are shown below
Ill health retirement	Males: Standard table AMC00, scaling = 75% Females: Standard table AFC00, scaling = 75% Sample rates are shown below
Early retirement	No allowance has been made for non-ill health retirements before Normal Retirement Date
Withdrawals	No allowance has been made for withdrawals from service or transfers out of the Plan
Promotional salary increases	Allowance made for age-related promotional increases Sample rates are shown below

Trustee’s Report

Report on Actuarial Liabilities (continued)

Significant Actuarial Assumptions (continued)

Current age	Percentage leaving the Plan in the next year as a result of				% Promotional salary increase for men and women
	Death before retirement		Ill health retirement		
	Men	Women	Men	Women	
20	0.04	0.02	0.03	0.01	16.0
25	0.04	0.02	0.04	0.02	6.0
30	0.04	0.02	0.04	0.02	4.5
35	0.05	0.03	0.05	0.03	3.0
40	0.07	0.05	0.06	0.05	1.0
45	0.10	0.08	0.09	0.07	1.0
50	0.16	0.12	0.15	0.12	1.0
55	0.27	0.21	0.26	0.20	1.0
60	0.49	0.35	0.45	0.33	1.0

Following the decision to merge the Plan with the Diageo Pension Scheme, and subsequently wind up the Plan, no further Actuarial Valuations will take place.

Approval of the Trustee’s Report by the Trustee

Signed for and on behalf of the Trustee on 30 November 2023 :

Peter Goshawk
.... **Trustee Director**

Edward McShane
.... **Trustee Director**

Actuary’s Certification of the Schedule of Contributions

Certification of Schedule of Contributions

Name if scheme: Diageo Lifestyle Plan

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 1 January 2022 to be met by the end of the period specified in the recovery plan dated 18 January 2023.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 18 January 2023.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

Signature: DocuSigned by: 15324E0AC9E8461...

Date: 18-Jan-2023

Name: James Miller

Qualification: Fellow of the Institute and Faculty of Actuaries

Address: Verulam Point
Station Way
St Albans
AL1 5HE

Name of employer: Aon Solutions UK Limited

Independent Auditor’s Statement about Contributions to the Trustee of the Diageo Lifestyle Plan

Statement about contributions

We have examined the summary of contributions payable under the Schedules of Contributions to the Diageo Lifestyle Plan in respect of the Plan period ended 30 June 2023 which is set out on page 11

In our opinion contributions for the Plan period ended 30 June 2023 as reported in the summary of contributions and payable under the Schedules of Contributions have in all material respects from 1 January 2022 to 17 January 2023 been paid at least in accordance with the Schedule of Contributions certified by the actuary on 1 August 2019 and subsequently at least in accordance with the Schedule of Contributions certified by the Scheme Actuary on 18 January 2023.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the Schedules of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Plan and the timing of those payments under the Schedules of Contributions.

Respective responsibilities of Trustee and auditor

As explained more fully in the Statement of Trustee’s Responsibilities set out on page 21, the Plan’s Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the Plan by or on behalf of the employer and the active members of the Plan. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Plan and for monitoring whether contributions are made to the Plan by the employer in accordance with the Schedule of Contributions.

It is our responsibility to provide a statement about contributions paid under the Schedules of Contributions to the Plan and to report our opinion to you.

The purpose of our work and to whom we owe our responsibilities

This statement is made solely to the Plan’s Trustee, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Plan’s Trustee those matters we are required to state to it in an auditor’s statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Plan’s Trustee, for our work, for this statement, or for the opinions we have formed.

Nadia Dabbagh-Hobrow

Nadia Dabbagh-Hobrow
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill

Birmingham. B4 6GH
Date: 01-Dec-23 | 09:38 GMT

Independent Auditor's Report to the Trustee of the Diageo Lifestyle Plan

Opinion

We have audited the financial statements of Diageo Lifestyle Plan ("the Plan") for the period ended 30 June 2023 which comprise the Fund Account and the Statement of Net Assets and related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Plan during the Plan period ended 30 June 2023 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the period under review;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Plan in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Emphasis of matter – non going concern basis of preparation

We draw attention to the disclosure made in note 1 to the financial statements which explains that the financial statements have not been prepared on the going concern basis for the reason set out in that note. Our opinion is not modified in respect of this matter.

Independent Auditor's Report (continued)

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of the Trustee and the audit committee, Plan administrator and inspection of policy documentation, including the Plan's risk register, as to the Plan's high-level policies and procedures to prevent and detect fraud, as well as enquiring whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Trustee and audit committee minutes.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that Trustee (or their delegates including the Plan administrators) may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because revenue in a pension scheme relates to contributions receivable as paid under an agreed schedule or pre-determined by the Trustee; there are no subjective issues or judgements required.

We did not identify any additional fraud risks.

We performed procedures including identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted after the first draft of the financial statements have been prepared and unusual journals to cash.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the Trustee and their delegates (as required by auditing standards), and from inspection of the Plan's regulatory and legal correspondence and discussed with the Trustee, and their delegates, the policies and procedures regarding compliance with laws and regulations.

As the Plan is regulated by The Pensions Regulator, our assessment of risks involved gaining an understanding of the control environment including the Plan's procedures for complying with regulatory requirements and reading the minutes of Trustee meetings.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Plan is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related pensions legislation) and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Independent Auditor's Report (continued)

Fraud and breaches of laws and regulations – ability to detect (continued)

Secondly, the Plan is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation, or the loss of the Plan's registration. We identified the following areas as those most likely to have such an effect: pensions legislation and data protection legislation, recognising the financial and regulated nature of the Plan's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Trustee and their delegates and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We have reported separately on contributions payable under the Schedules of Contributions in our statement about contributions on page 27 of the annual report.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Other information

The Trustee is responsible for the other information, which comprises the Trustee's report (including the report on actuarial liabilities and the summary of contributions) and the actuarial certification of the Schedules of Contributions. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon in this report.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on this work we have not identified material misstatements in the other information.

Trustee's responsibilities

As explained more fully in their statement set out on page 21, the Plan Trustee is responsible for: supervising the preparation of financial statements which show a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Plan's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to wind up the Plan, or have no realistic alternative but to do so.

Independent Auditor's Report (continued)

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at:
www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Plan Trustee in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Plan Trustee those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Plan Trustee, for our audit work, for this report, or for the opinions we have formed.

Nadia Dabbagh -Hobrow

Nadia Dabbagh-Hobrow
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill
Birmingham. B4 6GH
Date: 01-Dec-23 | 09:38 GMT

Fund Account

For the 18 Months Ended 30 June 2023

	Note	18 months to 30 June 2023 £000	Year to 31 December 2021 £000
Contributions and benefits			
Employer contributions	4	53,424	30,678
Employee contributions	4	634	610
Total contributions		**54,058**	31,288
Other income	5	1,551	1,915
		55,609	33,203
Benefits paid or payable	6	(4,057)	(2,175)
Payments to and on account of leavers	7	(11,934)	(7,138)
Group transfers out	8	(284,435)	-
Plan expenses	9	(911)	(471)
Other payments	10	(955)	(589)
		(302,292)	(10,373)
Net (withdrawals)/additions from dealings with Members		**(246,683)**	22,830
Returns on investments			
Investment income	11	8,625	5,450
Change in market value of investments	12	(225,357)	3,510
Investment management expenses	13	(884)	(788)
Net returns on investments		**(217,616)**	8,172
Net (decrease)/increase in the fund during the period		**(464,299)**	31,002
Net assets of the Plan at start of period		464,299	433,297
Net assets of the Plan at end of period		**-**	464,299

The accompanying notes on pages 34 to 43 form an integral part of these financial statements.

Statement of Net Assets (available for benefits)

As at 30 June 2023

	Note	30 June 2023 £000	31 December 2021 £000
Investment assets:	12		
Pooled investment vehicles		**-**	461,336
Cash		**-**	698
Other investment balances		**-**	-
		-	462,034
Investment liabilities:	12		
Other investment balances		**-**	(333)
		-	(333)
Total net investments	12	**-**	461,701
Current assets	16	**450**	3,023
Current liabilities	17	**(450)**	(425)
Net assets of the Plan at end of period		**-**	464,299

The financial statements summarise the transactions of the Plan and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the period. The actuarial position of the Plan, which considers such obligations for the Plan, is dealt with in the Report on Actuarial Liabilities on pages 22 to 25 of the Annual Report and these financial statements should be read in conjunction with this report.

The notes on pages 34 to 43 form an integral part of these financial statements.

These financial statements were approved by the Trustee on 30 November 2023 and signed on its behalf by:

Peter Goshawk
.... **Trustee Director**

Edward McShane
....

Trustee Director

Notes to the Financial Statements

For the 18 months ended 30 June 2023

1. Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Disclosure of Information) Regulations 2006 to 2013, Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland issued by the Financial Reporting Council ("FRS 102"), and with the Statement of Recommended Practice, "Financial Reports of Pension Schemes" (revised 2018) ("the SORP") published by the Pensions Research Accountants Group.

As disclosed in the Trustee's Report, the Trustee agreed to the merger of the Plan with the Diageo Pension Scheme and subsequently wind up has been triggered. These financial statements have therefore been prepared on a non-going concern basis. There has been no change to the recognition or valuation of the assets or liabilities in connection with the preparation of the financial statements on a basis other than going concern.

2. Identification of the financial statements

The Plan is established as a trust under English Law. The registered address of the Plan is Diageo Pension Trust Limited, 16 Marlborough Street, London, United Kingdom, W1F 7HS.

3. Accounting policies

The principal accounting policies of the Plan are as follows:

Contributions receivable and other income

i. Employees' normal contributions are recognised as and when they are deducted from the related salary.

ii. Employer normal contributions, which are expressed as a rate of salary, are accounted for on the same basis as the employees' contributions, in accordance with the Schedules of Contributions in force during the period.

iii. Lumps sums received from death in service insurers are recognised on an accruals basis.

Benefits payable and payments to leavers

i. Benefits are accounted for in the period in which a member's decision is notified to the Trustee of the type or amount of benefit to be taken.

Individual transfers and re-instatements

i. Individual transfers in or out are accounted for when received or paid which is normally when member liability is accepted or discharged.

Administrative expenses and investment management expenses

i. Administration expenses and investment management expenses, which are borne by the Plan, are accrued as they are incurred.

Notes to the Financial Statements

For the 18 months ended 30 June 2023

3. Accounting policies (continued)

Investments (policies adopted for the purpose of calculating the Group Transfer Out)

i. Investments are included at fair value.

ii. Pooled Investment Vehicles are stated at the bid or single price, as provided by the investment manager at the period end.

iii. Cash deposits represent the balance held on deposit at the period end.

iv. The change in market value of investments during the period comprises all increases and decreases in the market value of investments held at any time during the period, including profits and losses realised on sales of investments during the period.

Investment income

i. Interest on cash deposits is accounted for on an accruals basis.

ii. Income from pooled investment vehicles is accounted for when declared by the investment manager.

Presentation currency

The Plan's functional and presentation currency is pounds sterling.

4. Contributions

	18 months to 30 June 2023 £000	Year to 31 December 2021 £000
Employer contributions		
Normal	37,524	30,678
Deficit funding	15,900	-
Employee contributions		
Normal	634	610
	54,058	31,288

Employer normal contributions include £6,995,000 (31 December 2021: £5,647,000) contributions made on behalf of members under the salary sacrifice arrangement.

Deficit contributions of £15,900,000 were paid on 3 October 2022, as noted on page 7 of the Trustee Report.

Following the signing of the Transfer Agreement on 9 May 2023, all contributions that were payable to the Plan under the Schedule of Contributions signed on 1 August 2019 became payable to the Diageo Pension Scheme with effect from 22 June 2023. This included the contributions in respect of June 2023.

5. Other income

	18 months to 30 June 2023 £000	Year to 31 December 2021 £000
Claims on insurance policies	**1,551**	**1,915**

6. Benefits paid or payable

	18 months to 30 June 2023 £000	Year to 31 December 2021 £000
Lump sums on retirement	1,863	1,003
Annuity purchases on retirement	569	34
Lump sum death benefits	1,454	1,087
Taxation where lifetime or annual allowance exceeded	171	51
	4,057	2,175

7. Payments to and on account of leavers

	18 months to 30 June 2023 £000	Year to 31 December 2021 £000
Individual transfers out to other schemes	**11,934**	7,138

8. Group transfers out

	18 months to 30 June 2023 £000	Year to 31 December 2021 £000
Group transfers out	**284,435**	-

The group transfers out represents the transfer to Scottish Widows on 26 September 2022, and the full transfer of the Plan's assets to the Diageo Pension Scheme on 22 June 2023, as disclosed on page 6

9. Plan expenses

	18 months to 30 June 2023 £000	Year to 31 December 2021 £000
Pension administration costs	340	227
Professional fees	477	192
Regulatory fees	94	52
	911	471

The professional fees reported above include £16,100 (2021: £15,000) in respect of auditor's fees. Both pension administration costs and professional fees include fees and expenses relating to the Plan's merger with the Diageo Pension Scheme.

10. Other payments

	18 months to 30 June 2023 £000	Year to 31 December 2021 £000
Life assurance premiums	**955**	589

11. Investment income

	18 months to 30 June 2023 £000	Year to 31 December 2021 £000
Income from pooled investment vehicles	8,595	5,450
Interest on cash deposits	30	-
	8,625	5,450

12. Reconciliation of investments held at the beginning and end of the period

12.1 Investment Movements

	Value at 1 January 2022 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Bulk transfer out to the Diageo Pension Scheme £000	Value at 30 June 2023 £000
Pooled investment vehicles	461,336	822,977	(829,674)	(225,357)	(229,282)	-
	461,336	**822,977**	**(829,674)**	**(225,357)**	**(229,282)**	**-**
Cash deposits	698				**(27,125)**	**-**
Other investment balances	(333)					**-**
	461,701				**(256,407)**	**-**

The change in the market value of investments during the period comprises all increases and decreases in the market value of investments held at any time during the period, including profits and losses realised on sales of investments during the period.

No direct transaction costs e.g. commission, stamp duty and other fees, have been incurred. Indirect costs are incurred through the bid-offer spread on investments within the pooled investment vehicles. The amount of the indirect costs is not separately identifiable to the Plan.

12.2 Investment Summary

	30 June 2023		31 December 2021	
Pooled Investment Vehicles	**£000**	**%**	**£000**	**%**
LDI solution fund	-	-	242,215	52.4
Liquidity fund	-	-	4,114	0.9
Syndicated senior secured commercial loans fund*	-	-	106,951	23.2
Asset backed securities fund	-	-	108,056	23.4
	-	-	461,336	99.9
Cash deposits	-	-	698	0.2
Other investment balances	-	-	(333)	(0.1)
Total net investments	-	-	461,701	100.0

* This fund was managed by M&G and the sole investors within the fund were the Diageo Lifestyle Plan and the Diageo Pension Scheme.

13. Investment management expenses

	18 months to 30 June 2023 £000	Year to 31 December 2021 £000
Administration, management and custody	**884**	788

Included within administration, management and custody fees above are fees of £729,074 (31 December 2021: £766,583) which were deducted from the value of the Plan's assets by M&G, as well as £204,958 (2021: £Nil) in respect of interest paid on the credit facility from the Company, as explained on page 13.

The investment management expenses reported above include no performance related management fees (31 December 2021: £Nil).

Notes to the Financial Statements

For the 18 months ended 30 June 2023

14. Fair value determination

The fair value of financial instruments has been estimated using the following fair value hierarchy:

Level 1	The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
Level 2	Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
Level 3	Inputs are unobservable (i.e. for which market data is unavailable for the asset or liability).

Pricing Frequency

The valuation, pricing and trading frequency of the investments are set out below:

Manager	**Mandate**	**Pricing Frequency**	**Trading frequency**
Insight	LDI solutions	Daily	Daily
Insight	Liquidity fund	Daily	Daily
M&G	Syndicated senior secured commercial loan fund	Monthly	Monthly
M&G	Asset backed securities fund	Monthly	Monthly

The Plan held no investment assets or liabilities as at 30 June 2023.

The Plan's investment assets and liabilities fell into the above hierarchy levels as at 31 December 2021 as follows:

	Level 1 £000	**Level 2 £000**	**Level 3 £000**	**Total £000**
Pooled Investment Vehicles	**-**	**461,336**	**-**	**461,336**
Cash	**698**	**-**	**-**	**698**
Total 31 December 2021	**698**	**461,336**	**-**	**462,034**

15. Investment risk disclosures

The Plan had exposure to a number of investment risks during the period in review, and the principal risks are detailed below. Changes to the investment portfolio during the period from 1 January 2022 to 22 June 2023, when the Plan's assets were transferred to the Diageo Pension Scheme, are detailed in the Trustee's Report on pages 12 to 16.

Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Plan was subject to direct credit risk within the investment portfolio to the extent of the holdings in pooled investment vehicles and cash holdings. The Plan was indirectly exposed to credit risks arising on the underlying financial instruments held within the pooled investment vehicles. As the M&G Senior Secured Loan fund was a pooled investment vehicle controlled by the Trustee, credit risk arising from the underlying instruments (interest bearing securities and cash) was considered to be a direct exposure.

The Plan's holdings in pooled investment vehicles were unrated. Direct credit risk arising from pooled investment vehicles was mitigated by:

- the underlying assets of the pooled arrangements being ring-fenced from the manager,
- the regulatory environments in which the managers operated, and
- diversification of investments amongst a number of pooled arrangements.

The Trustee carried out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitor any changes to the regulatory and operating environment of the manager. The Plan's cash was placed with institutions which hold investment grade credit ratings.

The following table sets out the credit worthiness of those Plan's assets that were subject to credit risk.

31 December 2021	**Investment Grade £000**	**Non-investment Grade £000**	**Unrated £000**	**Total £'000**
Pooled Investment Vehicles	**-**	**-**	**461,336**	**461,336**
Cash	**698**	**-**	**-**	**698**
Other investment balance	**-**	**-**	**(333)**	**(333)**
	698	**-**	**461,003**	**461,701**

Note: *As at 31 December 2021, 5.4% of the M&G Senior Secured Loan funds assets were invested in investment grade securities, 88% in non-investment grade securities and 6.6% in unrated cash and cash equivalents.

All former Plan assets as at 30 June 2023 were held by the Diageo Pension Scheme.

15. Investment risk disclosures (continued)

Credit risk (continued)

Another risk consideration was the type of pooled investment vehicle in which the Plan's assets were invested as this will impact on the security of assets and the tax efficiency of the investments. A summary of pooled investment vehicles by type of arrangement is as follows:

	30 June 2023 £000	30 December 2021 £000
Qualifying Investor Alternative Investment Fund (QIAIF)	-	457,222
Undertakings for Collective Investment in Transferrable Securities (UCITS)	-	4,114
	-	**461,366**

The QIAIF investment vehicle is a tax transparent regulated alternative investment fund structure which is authorised and regulated by the Irish Central Bank. UCITS are investment funds regulated at a European Union Level.

Currency risk

This was the risk that the fair value or future cash flows of a financial asset would fluctuate adversely because of changes in foreign exchange rates.

The Plan was not directly exposed to currency risk as the pooled investment vehicles and cash held were denominated in Sterling, although as noted above, due to nature of the M&G Senior Secured Loan fund, risk exposures attributable to this fund were treated as direct exposures. At 31 December 2021, the underlying instruments in the M&G Senior Secured Loan fund were denominated in USD (31.6%), EUR (52.4%), other European currencies (less than 1%) and Sterling (8.5%), with cash accounting for the remaining proportion of the fund. The Plan mitigated this risk by instructing M&G to manage the currency exposure within the fund and hedge this risk back to Sterling where appropriate, therefore reducing the impact of adverse currency movements.

Indirect exposure to currency risk was due to a proportion of the underlying financial instruments held within the other pooled investment vehicles being denominated in overseas currencies.

Interest rate risk

This is the risk that the fair value or future cash flows of a financial asset will fluctuate adversely because of changes in market interest rates.

The Plan was not directly exposed to interest rate risk across the pooled funds in which it invested as the price of those funds was not directly affected by changes in interest rates. The only exception was the M&G Senior Secured Loan fund which as 31 December 2021, had direct exposure through its holdings in cash (6.6%) and interest bearing securities (93.4%).

Because some of the pooled funds held by the Plan invested in fixed interest securities such as swap contracts, government and corporate bonds as well as corporate loans, the Plan was exposed indirectly to interest rate risk as movements in interest rates will have a bearing on the price of those underlying assets.

15. Investment risk disclosures (continued)

Interest rate risk (continued)

The Plan had a target asset allocation of 50% to a liability matching portfolio, managed by Insight, which carried a leverage of around 2.0 times. The use of leverage allowed the Trustee to hedge a higher proportion of the Scheme's liabilities without the need to tie up the same proportion of the Scheme's assets. As such, the Plan was subject to indirect interest rate risk as the value of these pooled funds will fluctuate due to interest rate movements. The impact on the Plan of interest rate movements was mitigated by the Insight portfolio, since changes in the value of the liabilities were broadly matched by changes in the value of this portfolio. For example, if interest rates fall, the assessed value of the Plan's liabilities would rise and it is expected that the value of the liability matching portfolio would rise by a similar amount.

Other price risk

This is the risk that the fair value or future cash flows of a financial asset will fluctuate adversely because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. This risk is associated with equity and property market movements which can have an impact on all securities within that market.

As the Plan held pooled investment vehicles, it was not subject to direct 'other price risk'. Additionally, as the underlying instruments held within the pooled funds were not equity or property assets, the Plan was not indirectly exposed to this risk.

In addition, the Trustee identified a number of other risks that would impact on the funding level and contribute to funding risk which it considered when assessing the risk profile of the Plan's investments.

These included:

- **Cashflow risk** – the Trustee managed this risk by considering the amount and timing of the future payments into and out of the Plan. The Trustee agreed that all contributions paid into the Plan would be split between the three mandates as required to seek to maintain the actual asset allocation in line with the Plan's benchmark asset allocation.
- **Risk of lack of diversification** – the Trustee ensured that the assets held by the Plan within each mandate and asset class were well diversified, that is, there was no single investment within each mandate or asset class that was material in the context of the Plan as a whole. The Trustee monitored this via investment reports produced by the managers and the custodian.
- **Covenant risk –** the Trustee reviewed the strength of the sponsoring employer's covenant on a regular basis and was confident that the sponsor was strong and therefore able to withstand adverse future experience. The covenant was assessed using a Covenant Scorecard that covers several key company metrics.
- **Operational risk** – the Trustee managed this risk by ensuring that all advisors and third-party service providers were suitably qualified and experienced; and that suitable liability and compensation clauses were included in all contracts for professional services received. The Trustee delegated the responsibility for monitoring the suitability of the Plan's investment managers to the Investment Committee which met with the managers periodically. The Trustee also reviewed the investment managers' ISAE/AAF control reports (or equivalent) on an annual basis.

16. Current assets

	30 June 2023 £000	31 December 2021 £000
Cash balances	200	2,684
Prepayments and other	250	339
	450	3,023

17. Current liabilities

	30 June 2023 £000	31 December 2021 £000
Accrued expenses	213	239
Accrued benefits payable	237	186
	450	425

18. Related party transactions

Diageo pays certain administration expenses on behalf of the Plan and subsequently recharges these to the Plan. Included within Plan expenses in note 9 is £155,000 (31 December 2021: £86,000) of such expenses recharged by the Company in the period and within accrued fees payable in note 17 is an amount owed to the Company at the period end of £15,000 (31 December 2021: £13,000).

Contributions received and benefit payments in respect of Trustee Directors who are members of the plan have been made in accordance with the Trust Deed and Rules.

The Trustee Directors received annual fees totalling £38,856 (31 December 2021: £16,475) for services as Trustee of the Diageo Lifestyle Plan. The costs are borne by the Diageo Pension Scheme and are not reflected in these financial statements.

19. Employer related investments

At 30 June 2023, the Plan did not hold any Diageo plc shares directly (31 December 2021: nil).

At 30 June 2023, contributions due from the Company were £nil (31 December 2021: £nil).

At 30 June 2023, the Plan did not indirectly hold greater than 5% Diageo plc share in any of it's pooled investment holdings (31 December 2021: less than 5%).

20. Contingent liabilities

The Plan had no contingent liabilities at the period end (31 December 2021: nil).

21. Subsequent events

Following the period end, the Trustee completed the process of winding up The Plan. As such, the Trustee has prepared these financial statements on a cessation basis.

DIAGEO
PENSION TRUST LTD

Edinburgh Park
11 Lochside Place
Edinburgh
EH12 9HA

KPMG LLP
One Snow Hill
Snow Hill Queensway
Birmingham
B4 6GH

30 November 2023

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Diageo Lifestyle Plan ("the Plan"), for the period ended 30 June 2023, for the purpose of expressing an opinion:

i. as to whether these financial statements show a true and fair view of the financial transactions of the Plan during the Plan period ended 30 June 2023 and of the amount and disposition at that date of its assets and liabilities (other than liabilities to pay pensions and benefits after the end of the Plan period);
ii. whether the financial statements have been properly prepared in accordance with UK accounting standards (including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"));
iii. whether the financial statements contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995; and
iv. whether or not contributions payable to the Plan during the period have in all material respects been paid at least in accordance with the schedule of contributions.

These financial statements comprise the Statement of Net Assets (available for benefits), the Fund Account, and notes, comprising a summary of significant accounting policies and other explanatory notes.

We acknowledge as Trustee Directors our responsibilities under the Pensions Act 1995 for making available such information and records as may be reasonably required by you.

The Trustee confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Trustee confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Trustee has fulfilled its responsibilities, as set out in the terms of the audit engagement dated 10 March 2021, for the supervision of the preparation of financial statements that:

    i. show a true and fair view of the financial transactions of the Plan during the Plan period ended 30 June 2023 and of the amount and disposition at that date of its assets and liabilities (other than liabilities to pay pensions and benefits after the end of the Plan period);

ii. have been properly prepared in accordance with UK Generally Accepted Accounting Practice (including FRS 102); and

iii. contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice, 'Financial Reports of Pension Schemes'.

iv. The Trustee is also responsible for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates of contributions payable towards the Plan by or on behalf of the employer and the active members of the Plan and the dates on or before which such contributions are to be paid and for keeping records of contributions received in respect of any active member of the Plan and for monitoring that contributions are made to the Plan in accordance with the schedule.

The financial statements have been prepared on a non-going concern basis.

2. The methods, the data and the significant assumptions used in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.

3. All events subsequent to the date of the financial statements, and for which section 32 of FRS 102 requires adjustment or disclosure, have been adjusted or disclosed.

4. The Trustees confirm that for tax purposes, the Plan is a registered pension scheme under the Finance Act 2004.

Information provided

5. The Trustee has provided you with:

    - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
    - additional information that you have requested from the Trustee for the purpose of the audit; and
    - unrestricted access to persons within the Plane's management (including their delegates) from whom you determined it necessary to obtain audit evidence.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. The Trustee confirms the following:

    i) The Trustee has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

    Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

ii) The Trustee has disclosed to you all information in relation to:

a) Fraud or suspected fraud that it is aware of and that affects the Plan and involves:
   - management;
   - employees or delegates who have significant roles in internal control; or
   - others where the fraud could have a material effect on the financial statements; and

b) allegations of fraud, or suspected fraud, affecting the Plan's financial statements communicated by employees, former employees, delegates, former delegates, regulators or others.

In respect of the above, the Trustee acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Trustee acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error, and it believes it has appropriately fulfilled those responsibilities.

8. The Trustee has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

9. The Trustee has disclosed to you and have appropriately accounted for and/or disclosed in the financial statements, in accordance with section 21 of FRS 102 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. The Trustee has disclosed to you the identity of the Plan's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with section 33 of FRS 102.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them and as defined in FRS 102.

11. The Trustee confirms that the Plan is in wind up and that all necessary disclosures regarding this fact have been made in the financial statements as required by FRS 102.

This letter was tabled and agreed at the meeting of the Trustee on 30 November 2023.

Yours faithfully,

P. Gostraut

Chairman

Appendix to the Trustee Representation Letter of Diageo Lifestyle Plan: Definitions

Financial Statements

A complete set of financial statements comprises:

- a Statement of Net Assets (available for benefits) as at the end of the period;
- a Fund Account for the period showing the Plan's income and expenditure; and
- notes, comprising a summary of significant accounting policies and other explanatory information.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* states that:

"Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or combination of both, could be the determining factor".

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

a) was available when financial statements for those periods were authorised for issue; and
b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland as the "reporting entity").

a) A person or a close member of that person's family is related to a reporting entity if that person:
    i. has control or joint control over the reporting entity;
    ii. has significant influence over the reporting entity; or
    iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
b) An entity is related to a reporting entity if any of the following conditions apply:
    i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
    ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
    iii. Both entities are joint ventures of the same third party.
    iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
    v. The entity is a post employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
    vi. The entity is controlled or jointly controlled by a person identified in (a).
    vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
    viii. The entity, or any member of a group of which it is part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Related party transaction

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Related party definitions from the SORP (revised 2018): ***Financial Reports of Pension Schemes***

The following are related parties or presumed to be related parties of the reporting entity:

Employer-related parties

(a) Other pension schemes for the benefit of employees of companies and businesses related to the employers, or for the benefit of the employees of any entity that is itself a related party of the reporting pension scheme.

(b) Each participating employer.

(c) Companies and businesses controlled by, or under the same control as, the sponsoring employer.

Note: A director of an employer would not be a related party of a pension scheme unless they were in a position to control or exert significant influence over both the pension scheme and the employer.

Trustee-related parties

(a) Trustees and their close families;

(b) Key management (that is directors) of a corporate trustee and their close families;

(c) Entities controlled by, and associates and joint ventures of, the scheme itself;

(d) Companies and businesses controlled by the Trustees or their close families;

(e) Companies and businesses controlled by the key management of a corporate trustee, or their close families;

(f) Other pension schemes that have a majority of trustees in common with the scheme.

Note: In the context of pension schemes, key management personnel are usually the Trustees. In some instances key management personnel services may be provided by a corporate entity, for example a trustee company, which fall to be a related party. Pension managers, investment managers, custodians and administrators are not normally considered to be key management personnel since they are directed and controlled by the Trustees.