



Diageo Pension Scheme

Scheme Registration Number: 10101888

**Trustee's Annual Report and Financial Statements
Year Ended 31 March 2023**



Diageo Pension Scheme

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Diageo Pension Scheme

Trustee and its Advisers

The Trustee

The Trustee of the Diageo Pension Scheme (“the Scheme”) is Diageo Pension Trust Limited. The Directors during the year are set out below:

Employer nominated

P Goshawk (Chairman)^{2, 3}

Trustee Nominated

C S Wehrle^{1,2} (Resigned 30 November 2022)

E McShane^{1,2}

C Jordan²

Independent Trustee Services Ltd – represented
by Tegs Harding²

Member nominated

J H Cant²

J Donaldson (Resigned 27 September 2022)

A R Lynn^{1, 3}

C Lewin^{1, 2}

C Reilly³

¹Audit Committee member

²Investment Committee member

³Member Services Committee

The main committees of the Trustee Board are the Audit, Investment and Member Services Committees, the members of which 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 Great Marlborough Street,
London, United Kingdom, W1F 7HS

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

Solicitor:

Linklaters LLP

Diageo Pension Scheme

Trustee and its Advisers

Investment Managers:

HPS Investment Partners, LLC
Insight Investment Management Global Limited
M&G Investments Management Limited
Pantheon Ventures Limited
Savills Investment Management LLP
Western Asset Management Company Limited

**Additional Voluntary Contributions
(AVC) Fund Providers:**

During the Scheme year to 31 March 2023 AVCs were paid to:
Prudential Assurance Company Limited

Certain members also retain AVC funds with:

Aviva
Clerical Medical
Phoenix Life
Scottish Widows Fund and Life Assurance Society
Standard Life Assurance Company

Administrator:

The Administrator for the Scheme is Capita Pension Solutions Limited, for which contact details are as follows:

Diageo Pension Scheme
Capita
PO Box 555
Stead House
Darlington DL1 9YT
Telephone: 0333 222 0086
Email: diageopensions@capita.co.uk
Website: www.hartlinkonline.co.uk/diageo

Diageo Pension Scheme

Trustee's Report

The Trustee is pleased to present to members of the Scheme its report together with the audited financial statements for the year ended 31 March 2023.

Scheme Management

The Scheme

The Scheme was formed on 1 April 1999 by the merger of the GrandMet Group Pension Fund and the G.U.D. Pension Trust. In September 2005, the Scheme closed to new entrants. With effect from 1 April 2018, members ceased to accrue benefits based on their final salary and all benefit accrual subsequent to that date is on a Career Average Revalued Earnings ("CARE") basis (in relation to which, further information is provided on pages 9 and 10).

The following companies have formally participated in the Scheme during the year:

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

The Scheme is governed by a Trust Deed and Rules, copies of which are available on the Scheme website or on request from the Administrator. The Scheme is a registered pension scheme for tax purposes.

Members are advised that information regarding the Scheme has been given to the Pensions Regulator and the Pension Schemes Registry.

The Trustee

The Scheme is established under a Trust and the power to appoint or remove the Trustee rests with the Company. The Company has appointed a corporate trustee, Diageo Pension Trust Limited, as the Trustee of the Scheme. 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 Tega 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 year, 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.

Diageo Pension Scheme

Trustee's Report

Scheme Management (continued)

The Trustee (continued)

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

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 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 through periodic actuarial valuations, a carefully selected investment strategy and detailed internal control procedures.

The Trustee met formally 3 times during the year. The Trustee is supported by an Audit Committee, an Investment Committee, and a Member Services Committee, all of which met regularly during the year. These Committees make recommendations to the Trustee as appropriate.

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

The Responsible Investment sub-committee is a sub-set of the Investment Committee and supports the Investment Committee in ensuring that RI considerations are taken into account, where relevant, in all areas of the Scheme's management and supports the Trustees responsibility for the setting and implementation of the Scheme's RI Policy. This includes responsibility for ensuring all regulatory requirements are met and that the Scheme's governance processes are sufficient to ensure the proper management of all ESG related risks.

The Audit Committee oversees the Scheme's governance, the internal controls of the Scheme's administrator and other advisers and the integrity of the financial statements, including specific areas of judgement and risk. The Audit Committee receives a report from and meets with the independent auditor.

The Member Services Committee is responsible for exercising certain discretions under the rules of the Scheme, as well as oversight of the services of the Scheme's administrator, management of key projects relating to members' benefits and member engagement.

Diageo Pension Scheme

Trustee's Report

Scheme Management (continued)

Financial Development of the Scheme

The financial statements of the Scheme for the year ended 31 March 2023 are set out on pages 38 to 61. The financial statements have been prepared and audited in accordance with Sections 41(1) and (6) of the Pensions Act 1995. The report of the independent auditor, which is unqualified, is set out on pages 34 to 37.

The fund account shows that the net assets of the Scheme decreased from £6,828 million at 31 March 2022 to £4,775 million at 31 March 2023. The decrease in net assets is accounted for by:

	31 March 2023 £'m	31 March 2022 £'m
Contributions paid by the Company and members	2	13
Benefits paid to members and payments in respect of leavers	(287)	(280)
Administrative expenses	(5)	(3)
Net withdrawals from dealings with members	(290)	(270)
Net returns on investments	(1,463)	233
Total decrease in net assets for the year	(2,053)	(37)
Net assets at the start of the year	6,828	6,865
Net assets at the end of the year	4,775	6,828

Diageo Pension Scheme

Trustee's Report

Scheme Management (continued)

Actuarial Valuation

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

The Scheme is subject to a full actuarial valuation every three years. The results of the last actuarial valuation at 1 April 2021 revealed a surplus (positive difference between the value of the assets and the value needed to meet promised benefits) of £318 million, a funding level of 105%. On a solvency basis, which assumes the Scheme was discontinued at the valuation date, the deficit was £752 million, a funding level of 90%. On page 27, Report on Actuarial Liabilities, a comprehensive analysis of the key assumptions used within the 2021 actuarial valuation is provided.

Given the surplus funding position of the Scheme, it was agreed between the Trustee and the Company that the Company would pay contributions of 8% (inclusive of member contributions) from 1 April 2022. In addition, as part of the valuation the Trustee built in a reserve to cover the expenses of running the Scheme and so the Company will no longer have to make contributions to the Scheme in relation to expenses.

The Scheme continues to hold its interest in the Pension Funding Partnership (PFP), which holds maturing whisky spirit as assets. This interest was valued at £67 million at 31 March 2023 (2022: £101 million). The assets of the PFP generate annual conditional payments into the Scheme of up to £11.4m a year. These payments are contingent on there being a deficit (excluding the value of the PFP) in the funding position of the Scheme as at the start of the Scheme year.

Under the current arrangements the PFP is scheduled to be in place until 2030 at which time the Trustee will be able to sell its interest in the PFP to the Company for an amount no greater than the deficit at that time, up to a maximum of £430 million. However, should the Scheme show a surplus at a future triennial actuarial valuation, based on a set of agreed prudent assumptions and excluding any value for the PFP, then the Company may request that the PFP is terminated early, which will require the agreement of the Trustee.

The actuary's certificate in relation to the calculation of the technical provisions for the 2021 actuarial valuation is set out in the formal valuation report. A copy of the formal valuation report is available to members and can be downloaded from the Scheme's website or requested from the Administrator.

A Summary Funding Statement setting out the funding position as at 1 April 2023 will be provided in the Scheme Review 2023, which will be published on the Scheme's website.

The date of the next formal actuarial valuation is 1 April 2024.

Diageo Pension Scheme

Trustee's Report

Scheme Management (continued)

Internal Control and Procedures

The Trustee is required to act in accordance with the Trust Deed and Rules of the Scheme, 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 Scheme and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. Accordingly, the Trustee has ensured that comprehensive 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 Scheme's investments and ensures that the investment managers continue to work within guidelines set by the Trustee. The investment managers are interviewed regularly to review performance and to discuss proposed strategy.

External Custody: Northern Trust Global Services Limited (Northern Trust) is the Scheme'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 Scheme. Northern Trust is also responsible for reporting the market value of all the Scheme's assets. As a professional custodian, Northern Trust employs a rigorous system of controls to ensure the safekeeping of assets entrusted to it.

The Trustee bank accounts for day-to-day administration are held with Lloyds Bank plc, not with Northern Trust. Direct property investments and the Pension Funding Partnership are not held with Northern Trust. Separate arrangements are in place to safeguard these assets.

Specific Rules: the Trustee has formal written agreements with all 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 Scheme assets can be invested in any one segregated security.
- Limits on exposure to derivatives.

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

Diageo Pension Scheme

Trustee's Report

Scheme Management (continued)

Scheme Membership

The Scheme had 31,394 members as at 31 March 2023 (2022: 32,658). The composition of the Scheme membership and movements during the year are shown below:

	Employee members	Deferred Employee Members*	Deferred pensioners	Pensioners (including spouses and dependants)	Suspended Members**	Total
As at 31 March 2022	675	32	9,468	22,302	181	32,658
Suspensions	-	-	-	(21)	21	-
Retirements	(40)	(4)	(477)	512	-	(9)
Deaths	(1)	-	(37)	(1,288)	(8)	(1,334)
Leavers with transfer out or full commutation of trivial benefits	(10)	(13)	(194)	(20)	-	(237)
Leavers with deferred pension entitlements	(15)	(4)	25	-	-	6
Opt outs	(37)	37	-	-	-	-
Child's/Spouse's pension	-	-	-	310	-	310
As at 31 March 2023	572	48	8,785	21,795	194	31,394

* Members who have opted out of the scheme but remain employees of the Company, with a final salary link in respect of service prior to 31 March 2018.

** Pensions in payment may be suspended in the event that the member does not respond to periodic requests from the administrator for confirmation of circumstances.

Scheme Benefits

The Scheme provides pensions at retirement based on members' earnings and length of membership of the Scheme. In addition, it provides benefits for dependants in the event of a member's death.

Until 5 April 2016, members were contracted-out of the Additional State Pension. From 6 April 2016, following changes to the State Pension, members are no longer contracted-out of the Additional State Pension. The Scheme pension at State Pension Age is never less than the amount necessary to satisfy the contracting out requirements.

From 1 April 2018, active members build up benefits on a Career Average Revalued Earnings (CARE) basis. Scheme benefits built up until 31 March 2018 will continue to be linked to the member's Final Pensionable Pay (or equivalent as defined by the Scheme Rules) beyond 31 March 2018.

CARE provides members with an annual income (a pension) for life when they retire. Details of how CARE works are summarised below:

- Member contribution rate: 8% of pensionable pay.

Diageo Pension Scheme

Trustee's Report

Scheme Management (continued)

Scheme Benefits (continued)

- **Accrual rate:** Each year between 1 April 2018 and 31 March 2022, members built up a block of pension equal to 1/70th of their Pensionable Pay during that year. From 1 April 2022 members build up a block of pension equal to 1/108th of their Pensionable Pay. The accrual rate is subject to the 'cost control mechanism' described below.
- The 'cost control mechanism' places a lower and upper limit on the cost to Diageo of providing future service benefits on the CARE basis and will apply irrespective of the reason behind the change in the cost. If, at each actuarial valuation from 1 April 2021, the cost to the Company of providing future service benefits moves outside a lower and upper limit the accrual rate will change to bring the cost back to 27.5%. This is the original cost of the CARE benefit. If the cost is below the lower limit the accrual rate will increase and if the cost is above the upper limit the accrual rate will reduce. At the 1 April 2021 valuation, the cost to the Company of providing future service benefits was 46.7% and exceeded the upper limit. The accrual rate was therefore reduced to 1/108th from 1 April 2022 to bring the cost to the Company back to 27.5%. This will be reviewed again at the valuation at 1 April 2024.
- **Pension increases:** Each block of pension will increase each April (on the 1st of the month) between the date the member earns it and the date that they draw their pension. These increases will be equal to the rise in Consumer Prices Index (CPI) inflation up to a maximum of 5% a year.
- **Pension at retirement:** When the member comes to take their pension benefits, all the blocks of pension that they have built up will be added together to give a total amount of pension payable to the member for life. This would be in addition to the pension they have built up in the Scheme up to 31 March 2018.
- **Retirement dates (for reduced and unreduced pension):**
 - The Normal Retirement Date (NRD) for the CARE benefits is age 65.
 - The member can take their CARE pension from age 60 without any reduction for early payment, subject to the consent of Diageo and the Trustee.
 - If the member retires and takes their CARE benefits before age 60, the pension will currently be reduced by 5% for each year they retire early before age 60. For example, if they retired at age 58, their pension would be reduced by 10%.
- Benefits will be provided for dependants in the event of the member's death.

Annual Pension Increases

In accordance with the Trust Deed and Rules of the Scheme, pensions in payment increase on 6 April each year as follows:

- In line with the movement in the Retail Prices Index (RPI) up to a maximum of 5% in respect of pension accrued up to 31 March 2012. This increase is not less than 3% for former Grand Met Group Pension Fund members in respect of pension accrued up to 31 March 2011.

Diageo Pension Scheme

Trustee's Report

Scheme Management (continued)

Annual Pension Increases (continued)

- In line with the movement in the Consumer Prices Index (CPI) up to a maximum of 5% in respect of pension accrued from 1 April 2012.

Pensions which have been payable for less than a year generally receive a proportion of the increase.

The increase granted to pensions in payment for the year beginning 1 April 2022 was 5.0% for pensions accrued to 31 March 2012 and 5.0% for pension accrued from 1 April 2012.

Deferred pensions are increased in the period between the date the member leaves service and Normal Pension Date. For the majority of members, these increases were generally in line with RPI up to 31 March 2012. From 1 April 2012, deferred pensions are increased in line with CPI up to a maximum of 2.5%. However, if CPI is above 2.5%, the Company will consider a matching discretionary increase up to a maximum total increase of 5%.

Contributions

Members paid contributions for the year ended 31 March 2023 at the rate of 8% pensionable salary.

The Company operates a salary sacrifice arrangement, whereby an active member's salary can be reduced by the amount of that individual's pension contributions, with the member's pension contributions then paid to the Scheme directly by the Company.

From 1 January 2019 until 31 March 2022 the Company paid contributions of 38.25% of pensionable pay including members' contributions. The cost of administering the Scheme was met from the Scheme's assets.

The summary of contribution rates for members and the employers is based on the rates documented in the Schedule of Contributions that was implemented subsequent to the completion of the triennial valuation in 2021. The Schedule of Contributions is available on the Scheme's website. A copy of the actuary's certification of the latest Schedule of Contributions is included on page 31. The rate of company contributions has been reviewed in light of the results of the actuarial valuation as at 1 April 2021. Given the surplus funding position, from 1 April 2022 the Company will pay 8% of pensionable pay including members' contributions. In addition, a reserve has been built in to cover the expenses of running the Scheme and so the Company will no longer have to make contributions to the Scheme in relation to expenses.

The Trustee's statements about contributions in respect of the year ended 31 March 2023 and the independent auditor's statement about contributions are set out on pages 14 and 33 respectively.

All contributions due from members and the employers for the year ended 31 March 2023 have been received by the Scheme within the statutory deadlines.

Following the merger of the Diageo Lifestyle Plan into the Scheme, a new Schedule of Contributions was signed on 22 June 2023 which includes contribution rates for Lifestyle Section members.

Additional Voluntary Contributions

The Scheme accepted Additional Voluntary Contributions (AVCs) up to 31 December 2016. The principal provider for AVC funds up to this date was the Prudential Assurance Company, which offers a choice of investment funds. From 1 January 2017 all active members can make AVCs to the Diageo Pension Plan (DPP), the Company's defined contribution plan in the UK. The DPP offers a choice of investment funds. Members may make either regular contributions to the AVC arrangements by deduction from pay at source or periodic lump sum payments.

Diageo Pension Scheme

Trustee's Report

Scheme Management (continued)

GMP Equalisation

In October 2018, the High Court ruled that pension schemes are required to equalise benefits between men and women for the effect of Guaranteed Minimum Pensions (GMP) which were accrued on or after 17 May 1990.

The High Court has since determined that trustees owed a duty to a transferring member to make a transfer payment which reflected the member's right to equalised benefits. Where the initial transfer payment was inadequate on this basis the trustee is under an obligation to make a top-up payment to the receiving scheme on behalf of the transferred member.

The Trustee has recently started a project to equalise GMPs which will be phased over the next couple of years and will include communications to impacted members.

Merger of the Diageo Lifestyle Plan into the Scheme

In December 2022, the Company put forward a proposal to the Trustee to merge the Diageo Lifestyle Plan (DLP) into the Scheme with the primary aim of streamlining the governance of the UK pensions arrangements. Following completion of a period of consultation with active and prospective members of the DLP and having considered the proposal and received legal and actuarial advice, the Trustee signed a Transfer Agreement on 9 May 2023 agreeing to the transfer of all the assets and liabilities of the DLP to the Scheme. This transfer was completed on 22 June 2023. Under the terms of the Transfer Agreement, there will be no changes to the benefits of any members. Members of the DLP have been transferred to a new section within the Diageo Pension Scheme – the Lifestyle Section.

Capita Cyber Incident

Capita Pensions Solutions Limited (Capita), the administrator of the Scheme, 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 has taken action to comply with its regulatory obligations, including informing relevant regulators and communicating with affected members.

Diageo Pension Scheme

Trustee's Report

Scheme Management (continued)

Draft General Code of Practice

The Pensions Regulator (tPR) released a consultation document on 17 March 2021 on a new General Code of Practice in relation to Pensions Regulations, including a full draft of the Code. The new Code aims to bring together 10 of the 16 existing Codes of Practice, plus various pieces of existing guidance and new material required as a result of the 2018 Occupational Pension Schemes (Governance) regulations.

Confirmation from tPR on when the new Code is to be published is still awaited, but it is unlikely to become law until Spring 2024 at the earliest.

The Trustee has completed a review of the draft Code and will continue undertaking an assessment on whether current governance practices meet tPR's new expectations once the new code becomes effective.

Diageo Pension Scheme

Trustee's Report

Trustee's Statements about Contributions

Statement of Trustee's responsibilities in respect of contributions

The 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 Scheme by or on behalf of the employer and the active members of the Scheme 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 Scheme, and for monitoring that contributions are made to the Scheme in accordance with the Schedule. The current Schedule of Contributions is available on the Scheme's website.

Trustee's summary of contributions payable under the Schedule of Contributions in respect of the year to 31 March 2023

This summary of contributions has been prepared by, or on behalf of, and is the responsibility of the Trustee. It sets out the employer and member contributions payable to the Scheme under the Schedule of Contributions certified by the actuary on 21 February 2022 in respect of the Scheme year ended 31 March 2023. The Scheme auditor reports on contributions payable under the schedule in the Auditor's Statement about Contributions.

Contributions payable under the Schedule in respect of the Scheme year	£'m
Employers:	
Normal contributions	2
Total contributions payable under the Schedule of Contributions (as reported on by the Scheme auditor and as reported in the financial statements)	2

Diageo Pension Scheme

Trustee's Report

Investment Matters

Investment Committee

The Investment Committee is appointed by the Trustee and operates under its own terms of reference. The Committee is assisted by Hymans Robertson, the Scheme's professional investment adviser.

Investment Strategy and Recent Developments

The Trustee categorises the Scheme's assets into three key groupings of "Growth", "Income" and "Protection" as the basis for the investment strategy. The Growth assets (such as property) seek to generate higher returns in excess of the Scheme liabilities. The Income assets (such as loans) also seek to outperform liabilities or cash but by a smaller margin with returns more focussed on income generation to help provide greater stability to returns and meet ongoing net cash requirements. The Protection assets (such as Government bonds or Gilts) seek to reduce the volatility of the funding position by more closely matching the Scheme's liabilities. The Trustee has continued to review the required balance of assets across these three groupings in order to move the Scheme towards its long-term target position and help meet net cash outflows as it becomes more mature over time.

The strategic benchmark asset allocation for the Scheme is set out in the following table. Allocation is largely unchanged from 2022 with only a 1% movement from income assets to protection to reflect the full disinvestment from the Insight Collateralised Loan Obligations (CLO) mandate. Following the 2022 strategy review, the Trustee has agreed a long-term target benchmark allocation which will involve further de-risking. This strategy will be adopted over time due to the nature of some of the underlying assets.

Asset Class	Benchmark Allocation for the year ended 31 March 2023 (%)	Benchmark Allocation for the year ended 31 March 2022 (%)
<i>Growth assets</i>	12	12
Private equity	7	7
Property	5	5
<i>Income assets (such as bonds and loans)</i>	34	35
<i>Protection assets (such as gilts, swaps and cash)</i>	54	53
Total	100	100

The benchmark asset allocation excludes the Pension Funding Partnership and AVC investments.

The Trustee monitors the asset allocation on a regular basis and will consider whether to rebalance by moving assets between the relevant asset classes when allocations have moved away from this benchmark. During the reporting period the Scheme's actual asset allocation diverged away from the benchmark allocation due to volatile market conditions. The Trustee has taken action to i) rebalance the assets closer towards the benchmark allocation and ii) start moving towards its long-term target benchmark allocation which will see the allocation to Growth assets reduce and the allocation to Protection assets increase. More detail is provided below.

Diageo Pension Scheme

Trustee's Report

Investment Matters (continued)

Investment strategy and Recent Developments (continued)

The value of the Scheme's actuarial liabilities, being benefits payable to members in future years, is significantly influenced by the rates of interest and inflation. Accordingly, as part of the investment strategy, the Trustee has had in place for some years a liability hedging programme, designed to mitigate the impacts on the Scheme of changes in the expectations for interest rates and inflation. The programme is implemented by using interest and inflation swaps, gilt repurchase agreements and other suitable financial instruments.

The Trustee maintained target hedging levels to interest rates and inflation at 100% of liabilities on gilts+0.5% p.a. basis (the Scheme's economic basis). This has been monitored regularly to ensure hedging is in line with target and is still appropriate for the Scheme.

The first half of the year 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.

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 Scheme's target hedging level. As such, the Trustee instructed a number of sales across the Scheme's income assets to source the required funds. Initial trades aimed to rebalance the asset allocation closer in line with the current target benchmark allocation. Subsequently, the Trustee also started implementing de-risking actions agreed as part of the 2022 strategy review to start moving the investments towards the long-term target benchmark allocation. As far as possible, the Trustee sought to spread out the trading activities to minimise trading costs and maximise value. In the meantime, Diageo plc entered into a temporary credit facility with the Trustee, with the purpose of supporting the temporary liquidity requirements in respect of the interest rate and inflation hedging arrangements. All funds borrowed using the facility were repaid in October 2022, but the facility itself currently remains in place on a temporary basis.

The Scheme's hedging levels were maintained in line with the target throughout the period of market volatility. It should be noted that the Trustee met and continues to be able to meet all pension obligations due. Over the remainder of the Scheme year 2022/23, the Trustee has focused on improving the Scheme's collateral resilience and building more flexibility within the investment strategy.

Investments

The total net investments of the Scheme at 31 March 2023 were £4,788 million (2022: £6,840 million). The analysis of these investments is set out in the Statement of Net Assets on page 39 and in Note 9 to the financial statements on pages 44 to 46. After making certain simplifying allocations, principally to reflect certain cash and derivative balances within the asset class of the portfolio within which they are managed, the Scheme's total net investments may be summarised as follows:

Diageo Pension Scheme

Trustee's Report

Investment Matters (continued)

Investments (continued)

Asset Class	As at 31 March 2023		As at 31 March 2022	
	£'m	%	£'m	%
Private equity	642	14	670	10
Property	410	9	501	7
Growth assets	1,052	22	1,171	17
Income assets	1,863	40	2,742	41
Protection assets	1,797	38	2,820	42
Assets subject to benchmark	4,713	100	6,733	100
Pension Funding Partnership	67		101	
AVCs	8		6	
Total net investments	4,788		6,840	

Marketability of Investments

At 31 March 2023, £2,329 million (49%) (2022: £3,774 million (55%)) of the Scheme's investments were either quoted on a recognised bond market, invested in pooled investment vehicles where the underlying investments are also invested on a recognised bond market or were in the form of derivatives or cash. These assets are, therefore, considered to be marketable on a short-term basis. Longer periods may be needed to dispose of private equity investments, direct and indirect investments in property and loans.

The Scheme's interest in the Pension Funding Partnership is governed by an agreement between the Scheme and the Company under the terms of which the Scheme cannot sell or otherwise transfer its interest to a third party without the consent of the other partners.

Diversification of Investments

At 31 March 2023 there were two individual holdings that represented more than 5% of the Scheme's total net investments:

Holding	Value £'m	% of total net investments
HPS DPT Direct Lending Fund	361.8	7.5%
Pooled investment vehicle – Insight Secured Finance	306.8	6.4%

Diageo Pension Scheme

Trustee's Report

Investment Matters (continued)

Investments (continued)

The majority of the Scheme's holding of fixed interest and index-linked gilts issued by the UK Government are held within the protection asset portfolio, with a small holding of £5 million fixed interest UK Government bonds also held within the Western Absolute return bond portfolio. Within the protection assets, the Scheme holds UK Government gilts amounting to £2,557 million, of which £454 million is held under sale and repurchase agreements (whereby the Scheme has provided the gilt as security for bank funding provided to enable the Scheme to acquire additional gilts – a well-recognised investment practice as part of a hedging programme against interest or inflation risks). In addition, the Scheme holds bonds issued by Network Rail, amounting to £418 million, that are guaranteed by the UK Government. In aggregate, therefore, the Scheme has an exposure to the credit risk of the UK government of £2,981 million.

The long-term credit ratings of the UK Government from the credit rating agencies Standard & Poor's Ratings Services and Moody's Investor Services are AA and Aa3 respectively, as at the date of this report. Both ratings have remained unchanged since the date of the Trustee's last annual report. The Trustee is satisfied, after taking advice from its investment adviser, that the Scheme's exposure to the UK Government is reasonable in the context of the Scheme as a whole.

With the exception of the holdings referred to above, the assets held by the Scheme within each asset class, other than the Pension Funding Partnership, are well diversified, that is, there are no single investments within each asset class that are material in the context of the Scheme as a whole.

- Property: The largest individual property holding of the Scheme at 31 March 2023 was valued at £56.6 million, representing 1.2% of total net investments.
- Bonds: The 20 largest bond holdings of the Scheme (excluding those within pooled investment vehicles and those issued by or guaranteed by the UK government) at 31 March 2023, are valued at £75.3 million in aggregate and represent 1.6% of total net investments.

Self-Investment

The investment managers are permitted to invest in securities issued by the Company, Diageo plc, to the extent that the security falls within their investment mandate, up to a maximum of 5% of their portfolio.

Investment Managers

The Trustee appoints independent professional investment managers to manage all aspects of investment for a specific portfolio in accordance with a mandate approved by the Trustee. The investment managers employed during the year are listed on page 3.

Diageo Pension Scheme

Trustee's Report

Investment Matters (continued)

Investment Managers (continued)

The terms of remuneration for the Scheme's investment managers are set out in their respective management agreements which are approved by the Trustee, taking into account commercial considerations. For most of the managers the remuneration comprises an 'ad valorem' fee based on the value of the assets under management and an incentive fee based on performance in excess of their set benchmark. In the year ended 31 March 2023, the total investment management fees were £35 million (2022: £35 million), including £3 million (2022: £6 million) of performance related management fees. The Trustee periodically reviews the fees paid to all of its managers against industry standards.

The managers employed at the end of the year, a brief description of their mandates and their assets under management are set out in the table on the next page.

Details of the Trustee's arrangements with asset managers, including performance management, incentives, and remuneration policies, can be found in the SIP on pages 65 to 71.

Diageo Pension Scheme

Trustee's Report

Investment Matters (continued)

Investment Managers (continued)

Manager	Mandate	Assets under management £'m	Percentage of assets subject to benchmark %	Pricing frequency
Alternative Assets				
Pantheon	Private equity	642	14	Quarterly
Property				
Savills	UK directly-held property	409	8	Quarterly
CBRE	Asia indirectly-held property	1	0	Monthly
Total Growth Assets		1,053	22	
Bonds, Loans, long lease property and Cash				
M&G	Senior secured commercial loans	172	4	Monthly
M&G	Senior secured property loans	292	6	Quarterly
M&G	Asset backed securities	262	6	Daily
HPS	Private senior secured commercial loans	577	11	Monthly
Western	Absolute return bond	135	3	Daily
Savills	"Supercore" directly-held property	71	2	Quarterly
Insight	AAA collateralised Loan obligations*	1	0	Daily
Insight	Secured finance	307	7	Daily
Insight	Currency hedging	9	0	
Cash		37	1	Daily
Total Income Assets		1,863	40	
Liability-hedging arrangements				
Insight	Hedging portfolio	1,797	38	Daily
Total Protection Assets		1,797	38	
Assets subject to benchmark		4,713	100	
Pension Funding Partnership AVCs		67		Annually
Total net investments		4,788		

Note: *The remaining holdings represent residual cash leftover after termination of the mandate.

Diageo Pension Scheme

Trustee's Report

Investment Matters (continued)

Changes to investments

The following changes were made to the Scheme's strategic asset allocation over the year covered by this report. These are in relation to the implementation of the Trustee's de-risking plans to move the Scheme towards the agreed long term target allocation strategy.

- In early 2022, as part of further de-risking, the total target allocation to property was reduced from 10% (7% to the core fund and 3% to the Supercore fund) to 5% (with the new combined fund targeting a lower level of outperformance than the existing core fund). Due to the illiquid nature of the assets in question, achieving the target lower allocation in practice will take some time. Reduction of allocation to the new target level has progressed over the year, with the PIC continuing to work with Savills to achieve efficient execution of the de-risking plan, given the prevailing challenges in the property market.
- The allocation to private equity will now run-off over time as the current investment funds mature. Run-off has progressed over the year but the current target allocation to private equity remains at 7%, until a more meaningful reduction in the size of the actual private equity mandate is achieved.
- Full disinvestment from Insight Collateralised Loan Obligation (CLO) mandate took place over the year, with only a small amount (c£800k) remaining in the Fund as cash. Strategic asset allocation was updated from 1% to 0% to reflect disinvestment, with strategic allocation to protection assets increased by 1% at the same time.
- Phased disinvestments from the Insight Secured finance fund and M&G senior secured commercial loans mandate were carried out during the year to ultimately bring both allocations to nil in line with the Trustee's long-term target benchmark allocation (both mandates were still in the process of winding up as at 31 March 2023).
- M&G continued to draw capital committed to the Commercial Loan Investment Portfolio vehicle until October 2022, when it was decided to switch the fund to run-off (in line with the de-risking plan).
- The allocation to HPS private senior secured commercial loans will be reduced over time and the underlying DPT fund was switched into run-off in October 2022 to help achieve this.

Investment performance

The investment return achieved by the Scheme, and its constituent portfolios, is measured by the custodian, Northern Trust Global Services Limited.

The return for the year ended 31 March 2023, including the liability hedging programme, was -25.7%; the annualised return for the last three years was -7.3% and for the last five years was -1.4%. The table below shows the investment performance of the Scheme over the year and three years ended 31 March 2023, by asset class.

Investment Category	Year to 31 March 2023		Three years to 31 March 2023	
	Portfolio	Benchmark	Portfolio	Benchmark
	Return	Return	Return	Return
	%	%	%	%
Growth ¹	-1.5	-7.6	11.9	9.4
Income ²	0.6	3.1	3.7	1.4
Protection ³	-61.5		-28.9	
Scheme Return	-25.7		-7.3	

1 – includes equities, Savills core property and alternative assets 2 – includes bonds, Savills supercore property, loans and cash 3 -No benchmark has been defined for the Scheme's Protection assets given the nature of the liability hedging programme.

Diageo Pension Scheme

Trustee's Report

Investment Matters (continued)

Statement of Investment Principles

Under the Pensions Act 1995, the Trustee is required to put in place, and to review annually, a formal statement of the Scheme's investment principles covering its approach to investing the Scheme's assets. The Trustee's current Statement of Investment Principles (approved on 30 November 2022) is available on the Scheme's website and appended to this report on pages 65 to 71.

The Statement of Investment Principles is currently under review to reflect the merging of the Scheme with the Diageo Lifestyle Plan. An updated version is to be agreed by the Trustee in June 2023 and it will be subsequently published on the Scheme's website.

Code of Myners Principles

The Trustee applies high standards of investment governance. It complies with all elements of the Myners code.

Stewardship

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

Responsible investment considerations

The Trustee has considered Responsible Investment, taking into account 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, including climate risk, and stewardship is set out in the Scheme's SIP.

The Trustee recognises that the consideration of financially material factors, including ESG factors, is relevant at different stages of the investment process. The Trustee has 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 also recognises that stewardship encompasses the exercise of voting rights, engagement of investment managers with the entities they invest in, engagement of the Trustee with investment managers and the monitoring of compliance with agreed policies. The Trustee has prepared an Implementation Statement that describes how the Trustee has complied with its stewardship policies over the past year. This statement is included as an appendix to this document on pages 62 to 64.

TCFD reporting

The Trustee's statement in relation to TCFD can be found at the following link: [TCFD Report](#)

Diageo Pension Scheme

Trustee's Report

Compliance Matters

The purpose of this Statement 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 administrative routine.

Internal Disputed Resolution Procedure

Whilst the Trustee hopes that there are no disputes relating to benefits from the Scheme, an Internal Disputes Resolution Procedure is in place to deal with any such problems should they arise. Information regarding the procedure is available from the Administrator.

Transfer Values

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

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 will assist members and beneficiaries of the Scheme in connection with difficulties which they have failed to resolve with the Trustee or Administrator of the Scheme and may investigate and determine any complaint or dispute of fact or law in relation to an occupational pension scheme.

The Pensions Ombudsman may be contacted at 1st Floor, 10 South Colonnade, Canary Wharf, London E14 4PU

Telephone: 0800 917 4487 Early resolution email: helpline@pensions-ombudsman.org.uk

Email: enquiries@pensions-ombudsman.org.uk

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 Napier House, Trafalgar Place, Brighton, BN1 4DW.

Telephone: 0345 600 7060

Pension Tracing

A pension tracing service is carried out by the Department for Work and Pensions.

The Pension Tracing Service may be contacted at The Pension Service 9, Mail Handling Unit A, Wolverhampton, WV98 1LU. Telephone: 0800 731 0193

Diageo Pension Scheme

Trustee's Report

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 Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

(i) show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; 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 Scheme'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 Scheme 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 Scheme 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 controls 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 Scheme and to prevent and detect fraud and other irregularities.

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

Diageo Pension Scheme

Trustee's Report

Report on Actuarial Liabilities

Under Section 222 of the Pensions Act 2004, every scheme 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 members are entitled to based on pensionable service to the valuation date. This is assessed using the assumption agreed between the Trustee and the Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full actuarial valuation of the Scheme was carried out as at 1 April 2021. This showed that on that date:

- The value of the Technical Provisions was: £6,540 million.
- The value of the Scheme's assets at that date (excluding AVCs) was: £6,858 million.

The method and significant assumptions used to determine the technical provisions are set out below. These statements have been extracted from the Appendix to the Statement of Funding Principles agreed between the Company and the Trustee on 21 February 2021. The Statement of Funding Principles is available on the Scheme's website.

Method

The actuarial method to be 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 and hence employer contributions is set out below. The assumptions vary depending on when the expected payment is made, i.e. they are "term dependent".

RPI Inflation: The implied RPI inflation assumption will be taken to be the investment market's expectation for 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 until February 2030 and RPI inflation assumption less 0.0% p.a. thereafter. The difference between the long-term assumption 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: The fixed interest gilt yield curve at the valuation date plus an outperformance allowance set at 1.1% p.a. at the valuation date decreasing linearly to 0.5% p.a. by 1 April 2030 and 0.5% p.a. thereafter. This addition to the yield curve reflects the prudent allowance the Trustee has agreed for additional investment returns by the Scheme's assets in excess of the underlying gilt yield curve.

Rate of pay increases: The RPI inflation assumption plus allowance for promotional increases.

Rate of increases to deferred pensions in excess of GMPs: Derived from the RPI and CPI assumption depending on category of member (subject to review if there is a significant change in the level of this assumption).

Diageo Pension Scheme

Trustee's Report

Report on Actuarial Liabilities

Significant Actuarial Assumptions (continued)

Rate of increase to pensions in payment in excess for GMPs: Inflation-linked pension increase assumptions are derived from the RPI inflation assumption allowing for the maximum and minimum annual increase, and the fact that inflation varies from year to year.

Financial assumptions summary: The following spot yields have been used for the technical provisions calculations as at 1 April 2021, calculated using the methodology set out above:

Term	Discount rate (%)	RPI price inflation (%)	CPI price inflation (%)	Pre 2011 ex-GPF increases (%)	Non ex-GPF and Post 2011 ex-GPF increases (%)	Post 2012 increases (%)	Post 88GMP increases (%)
1	1.11%	1.13%	0.55%	3.00%	1.38%	0.74%	0.55%
2	1.14%	2.04%	1.26%	3.28%	2.23%	1.57%	1.24%
3	1.20%	2.52%	1.77%	3.43%	2.63%	1.96%	1.61%
4	1.27%	2.90%	2.15%	3.62%	2.98%	2.34%	1.86%
5	1.36%	3.06%	2.31%	3.63%	3.05%	2.39%	1.98%
6	1.44%	3.13%	2.38%	3.65%	3.12%	2.46%	2.04%
7	1.53%	3.21%	2.45%	3.67%	3.18%	2.52%	2.09%
8	1.60%	3.27%	2.52%	3.70%	3.24%	2.58%	2.14%
9	1.67%	3.34%	2.59%	3.73%	3.29%	2.64%	2.18%
10	1.73%	3.39%	2.64%	3.75%	3.34%	2.68%	2.22%
11	1.79%	3.44%	2.73%	3.77%	3.37%	2.78%	2.26%
12	1.84%	3.48%	2.83%	3.78%	3.40%	2.86%	2.31%
13	1.89%	3.51%	2.91%	3.79%	3.43%	2.92%	2.34%
14	1.93%	3.53%	2.98%	3.80%	3.45%	2.98%	2.38%
15	1.96%	3.55%	3.03%	3.80%	3.46%	3.02%	2.40%
16	1.99%	3.56%	3.07%	3.80%	3.47%	3.05%	2.42%
17	2.02%	3.56%	3.11%	3.80%	3.47%	3.08%	2.44%
18	2.04%	3.56%	3.13%	3.80%	3.47%	3.10%	2.46%
19	2.05%	3.56%	3.15%	3.80%	3.46%	3.12%	2.47%
20	2.07%	3.55%	3.17%	3.79%	3.46%	3.13%	2.48%
21	2.08%	3.55%	3.18%	3.79%	3.45%	3.14%	2.48%
22	2.08%	3.54%	3.18%	3.78%	3.44%	3.14%	2.49%
23	2.09%	3.52%	3.18%	3.77%	3.43%	3.14%	2.49%
24	2.08%	3.51%	3.18%	3.76%	3.41%	3.14%	2.50%
25	2.08%	3.49%	3.18%	3.75%	3.40%	3.13%	2.50%
26	2.07%	3.47%	3.17%	3.74%	3.38%	3.13%	2.50%
27	2.06%	3.45%	3.16%	3.73%	3.36%	3.12%	2.49%
28	2.05%	3.43%	3.15%	3.72%	3.34%	3.11%	2.49%
29	2.04%	3.41%	3.14%	3.71%	3.32%	3.10%	2.49%
30	2.03%	3.39%	3.13%	3.70%	3.30%	3.08%	2.48%
31	2.01%	3.37%	3.12%	3.69%	3.28%	3.07%	2.48%
32	1.99%	3.35%	3.10%	3.68%	3.26%	3.06%	2.47%
33	1.98%	3.32%	3.09%	3.67%	3.24%	3.05%	2.47%
34	1.96%	3.30%	3.08%	3.66%	3.23%	3.03%	2.46%
35	1.94%	3.28%	3.06%	3.65%	3.21%	3.02%	2.45%
36	1.93%	3.27%	3.05%	3.64%	3.19%	3.01%	2.45%
37	1.91%	3.25%	3.04%	3.63%	3.18%	3.00%	2.45%
38	1.90%	3.24%	3.03%	3.63%	3.16%	2.99%	2.44%

Diageo Pension Scheme

Trustee's Report

Report on Actuarial Liabilities

Significant Actuarial Assumptions (continued)

Financial assumptions summary (continued):

Term	Discount rate (%)	RPI price inflation (%)	CPI price inflation (%)	Pre 2011 ex-GPF increases (%)	Non ex-GPF and Post 2011 ex-GPF increases (%)	Post 2012 increases (%)	Post 88GMP increases (%)
39	1.88%	3.22%	3.02%	3.62%	3.15%	2.99%	2.44%
40	1.87%	3.21%	3.02%	3.62%	3.14%	2.98%	2.44%
41	1.86%	3.20%	3.01%	3.61%	3.14%	2.98%	2.44%
42	1.86%	3.19%	3.01%	3.61%	3.13%	2.97%	2.44%
39	1.88%	3.22%	3.02%	3.62%	3.15%	2.99%	2.44%
40	1.87%	3.21%	3.02%	3.62%	3.14%	2.98%	2.44%
41	1.86%	3.20%	3.01%	3.61%	3.14%	2.98%	2.44%
42	1.86%	3.19%	3.01%	3.61%	3.13%	2.97%	2.44%
39	1.88%	3.22%	3.02%	3.62%	3.15%	2.99%	2.44%
40	1.87%	3.21%	3.02%	3.62%	3.14%	2.98%	2.44%
41	1.86%	3.20%	3.01%	3.61%	3.14%	2.98%	2.44%
42	1.86%	3.19%	3.01%	3.61%	3.13%	2.97%	2.44%

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.

Pension Funding Partnership: The value of the PFP included in the valuation as at 1 April 2021 was £155M. The PFP will be assumed until the next formal valuation to have a value of £137.38M as at 2 April 2021 and then linearly reduce to zero by 31 March 2030. The linear reduction will be updated every time an updated PFP value is recorded in signed Trustee Report & Accounts.

Expenses: The budgeted administrative expenses (including estimated PPF and other levies collected by the Pensions Regulator) will be met by the Trustee. Consistent with this, the technical provisions include an expense reserve. As at 1 April 2021 the technical provisions will be increased by 1% (after the application of the GMP equalisation reserve) as an expense reserve. This expense reserve has been established from surplus assets. The expense reserve will be reviewed at future valuations, but in advance of any review the expense reserve will continue to be set by increasing the technical provisions by 1%. Any increase in the expense reserve will be met from the surplus rather than by additional contributions.

Demographic Assumptions

Pre-Retirement mortality: Males: Standard table AMC00, scaling = 80%

Females: Standard table AFC00, scaling = 80%

Early retirement For active members, allowance has been made for retirements before Normal Pension Age (both on ill health and normal health grounds).

Sample rates are shown on the next page.

No allowance has been made for deferred members.

Withdrawals Allowance made for withdrawals from service.

Sample rates are shown on the next page.

Diageo Pension Scheme

Trustee's Report

Report on Actuarial Liabilities

Demographic Assumptions (continued)

Family Details	<p>The proportion of pensioner members with an adult dependant at the valuation date is age dependent.</p> <p>It has been assumed that male pensioners are 3 years older and female pensioners are the same age as their dependants.</p> <p>88% of male non-pensioners and 80% of female non-pensioners are assumed to have an adult dependant at age 65 or earlier death. It has been assumed that male non-pensioners are 2 years older and female non-pensioners are 1 year younger than their dependants.</p>
Commutation	<p>100% of members are assumed to commute 17% of their pension at retirement using factors which are around 15% higher than the current commutation factors.</p>
Promotional salary increases	<p>Allowance made for age-related promotional increases</p> <p>Sample rates are shown below.</p>

Men

Current Age	Percentage leaving the scheme in the next year as a result of		
	Withdrawal from service	Ill health retirement	Early retirement
20	8.0	0.07	0
25	8.0	0.07	0
30	8.0	0.08	0
35	8.0	0.09	0
40	8.0	0.12	0
45	8.0	0.18	0
50	8.0	0.29	5
55	8.0	0.51	10
60	8.0	0.91	35

Diageo Pension Scheme

Trustee's Report

Report on Actuarial Liabilities

Demographic Assumptions (continued)

Women

Current Age	Percentage leaving the scheme in the next year as a result of		
	Withdrawal from service	Ill health retirement	Early retirement
20	8.0	0.03	0
25	8.0	0.04	0
30	8.0	0.05	0
35	8.0	0.06	0
40	8.0	0.09	0
45	8.0	0.14	0
50	8.0	0.23	5
55	8.0	0.39	10
60	8.0	0.67	35

Men and Women

Current Age	Percentage promotional pay increase over year
20	2.0
25	2.0
30	2.0
35	2.0
40	2.0
45	1.5
50	0.5
55	0
60	0

Diageo Pension Scheme

Trustee's Report

Approval of the Trustee's Report by the Trustee

Signed for and on behalf of the Trustee on 7 September 2023

Peter Goshawk

.....

Trustee Director

Edward McShane

.....

Trustee Director

Diageo Pension Scheme

Actuary's Certification of the Schedule of Contributions

Certification of schedule of contributions

Name of scheme: Diageo Pension Scheme

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 April 2021 to continue to be met for the period for which the schedule is to be in force.

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 21 February 2022

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.

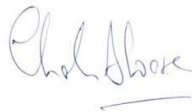
Signature	 15324E0AC9E8461...	Date:	22-Jun-2023
Name:	James Miller FIA	Qualification:	Fellow of the Institute and Faculty of Actuaries
Address:	Verulam Point Station Way St Albans AL1 5HE	Name of employer:	Aon Solutions UK Limited

Diageo Pension Scheme

Governance Statement for Diageo Pension Scheme – Additional Voluntary Contributions

This governance statement is in relation to the Additional Voluntary Contributions (AVCs) arrangements under the Diageo Pension Scheme (DPS) and is provided on a voluntary basis by the Trustee of the DPS, taking account of The Pensions Regulator's Code of Practice 13: Governance and administration of occupational trust-based schemes and the six accompanying how-to guidance documents, insofar as they apply to pension schemes that only provide money purchase benefits through AVCs.

- We have reviewed and assessed that our systems, processes and controls across key governance functions are consistent with the Code of Practice 13 and how-to guidance documents, insofar as they apply to AVCs.
- We seek to operate in accordance with 'best practice' arrangements, by providing the key features and following the processes outlined below.
 - A selection of funds is available to AVC members including a default strategy. The funds on offer cover a range of asset classes with varying levels of risks.
 - We will continue to undertake an annual review of the AVC scheme. This will include: a review of the investment performance, fees, and administration services of the providers, an assessment of the financial strength/credit worthiness and continued appropriateness of the providers and funds on offer, a review of the security and quality of the portfolio and an assessment of the changes to regulations impacting AVCs.
 - AVCs will continue to be invested in regulated markets.
 - The Trustee has appointed an investment consultant, Hymans Robertson who advise the Trustee on the AVC scheme and support the Trustee in the annual review.
 - Robust governance practices are in place including a risk footprint which is regularly reviewed. There are a number of internal controls relating to AVCs which mitigate significant operational, financial, regulatory and compliance risks.
 - AVC statements are issued on an annual basis and meet all statutory and disclosure requirements.



Signed:

Date: 27 September 2021

Chairman of the Trustee

Diageo Pension Scheme

Independent Auditor's Statement about Contributions to the Trustee of the Diageo Pension Scheme

Statement about contributions

We have examined the summary of contributions payable under the schedule of contributions to the Diageo Pension Scheme in respect of the Scheme year ended 31 March 2023 which is set out on page 14.

In our opinion contributions for the Scheme year ended 31 March 2023 as reported in the summary of contributions and payable under the schedule of contributions have in all material respects been paid in accordance with the schedule of contributions certified by the actuary on 21 February 2022.

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 schedule of contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the schedule of contributions.

Respective responsibilities of Trustee and Auditor

As explained more fully in the Statement of Trustee's Responsibilities set out on page 24, the Scheme'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 Scheme by or on behalf of the employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the schedule of contributions.

It is our responsibility to provide a statement about contributions paid under the schedule of contributions to the Scheme 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 Scheme'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 Scheme'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 Scheme's Trustee, for our work, for this statement, or for the opinions we have formed.

Nadia Dabbagh-Hobrow

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

One Snowhill

Snowhill Queensway

Birmingham, B4 6GH

Date:

Diageo Pension Scheme

Independent Auditor's Report to the Trustee of the Diageo Pension Scheme

Opinion

We have audited the financial statements of Diageo Pension Scheme ("the Scheme") for the year ended 31 March 2023 which comprise the Fund Account and the Statement of Net Assets and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year ended 31 March 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 Scheme year;
- 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 Scheme 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.

Going concern

The Trustee has prepared the financial statements on the going concern basis as they do not intend to wind up the Scheme, and as they have concluded that the Scheme's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the Trustee's conclusions, we considered the inherent risks to the Scheme and analysed how those risks might affect the Scheme's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Trustee's assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Scheme will continue in operation.

Diageo Pension Scheme

Independent Auditor's Report to the Trustee of the Diageo Pension Scheme (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 Scheme's risk register, as to the Scheme'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 and the Scheme's breach log.

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 Scheme administrators) may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as the valuation of unlisted investments. 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 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 had been prepared.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

Identifying and responding to risks of material misstatement due to non-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 discussed with the Trustee and their delegates the policies and procedures regarding compliance with laws and regulations.

As the Scheme is regulated by The Pensions Regulator, our assessment of risks involved gaining an understanding of the control environment including the Scheme'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.

Diageo Pension Scheme

Independent Auditor's Report to the Trustee of the Diageo Pension Scheme (continued)

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

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

Secondly, the Scheme 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 Scheme'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 Scheme'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 schedule of contributions in our statement about contributions on page 33 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, the summary of contributions and the implementation statement) and the actuarial certification of the schedule of contributions. Our opinion on the financial statements and TCFD 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.

Diageo Pension Scheme

Independent Auditor's Report to the Trustee of the Diageo Pension Scheme (continued)

Trustee's responsibilities

As explained more fully in their statement set out on page 24, the Scheme 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 Scheme'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 Scheme, or have no realistic alternative but to do so.

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 Scheme 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 Scheme 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 Scheme Trustee, for our audit work, for this report, or for the opinions we have formed.

Nadia Dabbagh-Hobrow

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

One Snowhill

Snowhill Queensway

Birmingham, B4 6GH

Date:

Diageo Pension Scheme

Fund Account

For the year ended 31 March 2023

		Total 2023 £'m	Total 2022 £'m
Contributions and benefits			
Employer contributions		2	13
Total contributions	4	2	13
Benefits paid or payable	5	(221)	(214)
Payments to and on account of leavers	6	(66)	(66)
Scheme expenses	7	(5)	(3)
		(292)	(283)
Net withdrawals from dealings with Members		(290)	(270)
Returns on investments			
Investment income	8	248	165
Change in market value of investments	9	(1,976)	103
Investment management expenses	21	(35)	(35)
Net returns on investments		(1,763)	233
Net decrease in the fund during the year		(2,053)	(37)
Net assets of the Scheme at start of year		6,828	6,865
Net assets of the Scheme at end of year		4,775	6,828

The accompanying notes on pages 40 to 61 form an integral part of these financial statements.

Diageo Pension Scheme

Statement of Net Assets (available for benefits)

As at 31 March 2023

	Note	Total 2023 £'m	Total 2022 £'m
Investment assets:			
Interest-bearing securities	9	3,476	6,227
Pooled investment vehicles	9	2,080	2,849
Pension funding partnership	10	67	101
Property	9	453	674
Derivative assets	12	1,305	1,187
AVC investments	17	8	6
Cash	13	261	188
Other investment balances	14	15	42
		7,665	11,274
Investment liabilities:			
Derivative liabilities	12	(2,202)	(2,147)
Other investment balances	15	(221)	(181)
Repurchase agreements	11	(454)	(2,106)
		(2,877)	(4,434)
Total net investments		4,788	6,840
Current assets	22	4	5
Current liabilities	23	(17)	(17)
Net assets of the Scheme at end of year		4,775	6,828

The financial statements summarise the transactions of the Scheme 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 Scheme year. The actuarial position of the Scheme, which takes into account such obligations, is dealt with in the Report on Actuarial Liabilities on page 25 of the Annual Report and these financial statements should be read in conjunction with this report.

The notes on pages 40 to 61 form an integral part of these financial statements.

These financial statements were approved by the Trustee on 7 September 2023 and signed on its behalf by:

Peter Goshawk

.....

Trustee Director

Edward McShane

.....

Trustee Director

Notes to the Financial Statements

For the year ended 31 March 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”), with the Statement of Recommended Practice, “Financial Reports of Pension Schemes” (revised 2018) (“the SORP”) published by the Pensions Research Accountants Group.

The financial statements are prepared on a going concern basis, which the Trustee believe to be appropriate as they believe that the Scheme has adequate resources to realise its assets and meet pension payments in the normal course of affairs (continue to operate) for at least twelve months from the date these financial statements are signed. In reaching this conclusion, the Trustee considered plausible downside scenarios. Key factors considered in this analysis were: the strong funding position of the scheme and the financial health of the principal employer and its ability to continue to make contributions as they fall due. These factors, together with income and capital growth from its assets give the Trustee confidence to prepare the financial statements on a going concern basis.

2. Accounting Policies

The principal accounting policies adopted by the Scheme are as follows:

a) Contributions

Contributions and other income are accounted for as follows:-

- i. Members’ normal and additional voluntary contributions, as and when they are deducted from the related salary or due or payable by the Company on behalf of members under the salary sacrifice arrangement.
- ii. Employers’ contributions in accordance with the Schedule of Contributions.

b) Transfers

- i. Transfer values paid out in respect of individual members are accounted for on a cash basis.

c) Benefits and expenses

- i. Retirement benefits, death benefits and expenses are accounted for when due.

d) Investments

- i. Investments are included at market value.
- ii. The listed investments are stated at the bid price or the last traded price, depending on the convention of the stock exchange on which they are quoted, at the date of the net assets statement.
- iii. Interest-bearing securities are stated at their clean prices. Accrued income is accounted for within investment income.

Diageo Pension Scheme

Notes to the Financial Statements For the year ended 31 March 2023

2. Accounting Policies (continued)

d) Investments (continued)

- iv. Unquoted securities are included at fair value estimated by the Trustee based on advice from the investment manager.
- v. Pooled Investment Vehicles (including those of the Private Equity manager) are stated at bid price for funds with bid/offer spreads, or single price/estimated NAV where there is no bid/offer spread, as provided by the investment manager.
- vi. The Pension Funding Partnership investment is included at the fair value estimated by the Trustee based on advice from the Scheme actuary. Annual coupon payments arising from the partnership investment are allocated between capital and interest components. The capital element is included as sales proceeds against the carrying value of the investment. The element of the coupon which represents the unwinding of the discount rate is classified as investment income. Any other factors affecting the fair value of the investment are reflected through change in market value.
- vii. Securities subject to repurchase agreements are included in the accounts within the respective investment classes at the year-end market value of the securities to be repurchased.
- viii. AVC investments are included at the value provided by the AVC manager.
- ix. Properties have been valued in accordance with the Royal Institution of Chartered Surveyors' Valuation Standards UK PS 1.1 Valuation for Financial Statements taking into consideration the current estimate of the rental value and market yields. The valuations have been carried out at 31 March 2023 by CBRE Limited, Chartered Surveyors, who have recent experience in the locations and class of the properties held by the Scheme.
- x. Derivatives are stated at market value. Exchange traded derivatives are stated at market values determined using market quoted prices. For exchange traded derivative contracts which are assets, market value is based on quoted bid prices. For exchange traded derivative contracts which are liabilities, market value is based on quoted offer prices. Over the counter (OTC) derivatives are stated at market value using pricing models and relevant market data as at the year-end date. Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date. All gains and losses arising on derivative contracts are reported within 'Change in Market Value'.

e) Investment income

- i. Dividend income from quoted securities is accounted for when the security is quoted ex-dividend.
- ii. Rents are accounted for in accordance with the terms of the lease.
- iii. Interest is accrued on a daily basis.
- iv. Investment income is reported net of attributable tax credits but gross of withholding taxes which are accrued in line with the associated investment income.

Diageo Pension Scheme

Notes to the Financial Statements

For the year ended 31 March 2023

2. Accounting Policies (continued)

e) Investment income (continued)

- v. Investment income arising from the underlying investments of the Pooled Investment Vehicles which is reinvested within the Pooled Investment Vehicles is reported within 'Change in Market Value'. Investment income arising from other Pooled Investment Vehicles is accounted for on an accruals basis.

f) Foreign currencies

Balances denominated in foreign currencies are translated into Pounds Sterling at the exchange rates ruling at the date of the net assets statement. Asset and liability balances are translated at the bid and offer rates respectively. Transactions denominated in foreign currencies are translated at the rate ruling at the date of the transaction. Differences arising on investment balance translation are accounted for in the change in market value of investments during the year.

g) Taxation

The Scheme is a registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax.

h) Significant accounting estimates and judgement

The preparation of the financial statements necessarily requires the exercise of judgement both in application of the accounting policies which are set out above and in the selection of assumptions used in the calculation of estimates. These estimates and judgements are reviewed on an ongoing basis and are continually evaluated based on historical experience and other factors. The most significant estimates are the valuations of properties (described in note 2 (d) ix) and the pension funding partnership (described in note 2 (d) vi). See notes 9 and 10 for further information of the key inputs to the property and pension funding partnership, respectively.

3. Identification of the financial statements

The Scheme is established as a trust under English Law. The address for enquiries to the scheme is included in the Trustee's Report on page 3.

4. Contributions

	2023 £'m	2022 £'m
Employer contributions		
Normal	2	13

Employer normal contributions include contributions of £2.4 million (2022: £2.8 million) made on behalf of members under the salary sacrifice arrangement. Contributions received directly from members amount to less than £1 million (2022: less than £1 million).

Diageo Pension Scheme

Notes to the Financial Statements
For the year ended 31 March 2023**5. Benefits paid or payable**

	2023 £'m	2022 £'m
Pensions	200	195
Lump sum on retirement	18	16
Lump sum on death	1	1
Taxation where lifetime or annual allowance exceeded	2	1
Trivial commutations	-	1
	<u>221</u>	<u>214</u>

Taxation arising on benefits paid or payable is in respect of members whose benefits exceeded the lifetime or annual allowance and who elected to take lower benefits from the Scheme in exchange for the Scheme settling their tax liability.

6. Payments to and on account of leavers

	2023 £'m	2022 £'m
Individual transfers out to other schemes	<u>66</u>	<u>66</u>

7. Scheme expenses

	2023 £'m	2022 £'m
Pension administration costs	2	2
Professional fees	3	1
	<u>5</u>	<u>3</u>

The professional fees reported above include £140,000 (2022: £128,650) of auditor's fees.

8. Investment income

	2023 £'m	2022 £'m
Income from bonds	80	82
Income from pooled investment vehicles	152	62
Interest on cash deposits and other	8	(1)
Income from the pension funding partnership	-	-
Property income	29	17
Interest receivable on swap contracts	8	10
Interest payable on sale and repurchase agreements	(29)	(5)
	<u>248</u>	<u>165</u>

The Scheme's custodian, Northern Trust, is authorised by the Trustee to undertake security lending activities. Income from security lending amounted to less than £1 million (2022: less than £1 million).

As explained further in note 10, there have been no distributions during the year in relation to the Pension Funding Partnership, as such payments are now dependent on the Scheme's funding position.

Diageo Pension Scheme

Notes to the Financial Statements
For the year ended 31 March 2023

9. Investments

9.1 Investment Movements

	Value at 1 April 2022 £'m	Purchases at cost & derivative payments £'m	Sales proceeds & derivative receipts £'m	Change in market value £'m	Value at 31 March 2023 £'m
Interest-bearing securities	6,227	1,416	(2,421)	(1,746)	3,476
Pooled investment vehicles	2,849	3,253	(4,003)	(19)	2,080
Pension Funding Partnership	101	-	-	(34)	67
Property	674	8	(132)	(97)	453
Derivatives	(960)	471	(324)	(84)	(897)
AVC investments	6	-	(1)	3	8
	8,897	5,148	(6,881)	(1,977)	5,187
Sale and repurchase agreements	(2,106)			-	(454)
Cash deposits	188			(2)	261
Other investment balances	(139)			3	(206)
Total Net Investments	6,840			(1,976)	4,788

Note:

- i. There are no transaction costs for the year included within the above purchases and sales figures (2022: £nil). Costs are also borne by the Scheme in relation to transactions in pooled investment vehicles. However, such costs are taken into account in calculating the bid/offer spread of these investments and are not therefore separately identifiable.
- ii. The companies operating the pooled investment vehicles are all registered in the UK.
- iii. The Scheme participates in a security lending programme managed by the Scheme custodian. At the year end the Scheme had lent £21 million (2022: £44 million) of Interest-bearing securities. Collateral of £23 million (2022: £47 million) was held, giving a collateralisation level of 107.8% (2022: 105.2%).

Diageo Pension Scheme

Notes to the Financial Statements
For the year ended 31 March 2023

9. Reconciliation of investments held at the beginning and end of the year (continued)

9.2 Investment Summary

	<i>As at 31 March 2023</i>		<i>As at 31 March 2022</i>	
	£'m	%	£'m	%
Interest-bearing securities:				
UK – Government	1,214	25.4	2,090	30.6
UK – Non-Government	124	2.6	238	3.5
UK – Index Linked	1,914	37.7	3,341	48.9
Overseas – Government	30	0.6	98	1.4
Overseas – Non-Government	194	4.1	460	6.7
Pooled investment vehicles:				
Private Equity funds	618	12.9	628	9.2
Property funds	1	-	3	-
Interest-bearing loan funds	1,334	27.9	1,648	24.1
Liquidity funds	127	2.7	570	8.3
Pension Funding Partnership	67	1.4	101	1.5
Property	453	9.5	674	9.9
Derivative assets:				
Swaps	1,288	26.9	1,185	17.3
Forward contracts	13	0.3	1	-
Futures	4	0.1	1	-
AVC investments	8	0.2	6	0.1
Cash deposits	261	5.5	188	2.8
Other investment assets	15	0.3	42	0.6
Total investment assets	7,665	160.1	11,274	164.9
Derivative liabilities:				
Swaps	(2,201)	(46.0)	(2,124)	(31.1)
Forward contracts	-	-	(21)	(0.3)
Futures	(1)	-	(2)	-
Sale and repurchase agreements	(454)	(9.5)	(2,106)	(30.8)
Other investment liabilities	(221)	(4.6)	(181)	(2.7)
Total investment liabilities	(2,877)	(60.1)	(4,434)	(64.9)
TOTAL NET INVESTMENTS	4,788	100.0	6,840	100.0

Diageo Pension Scheme

Notes to the Financial Statements
For the year ended 31 March 2023**9. Reconciliation of investments held at the beginning and end of the year (continued)****9.3 Trustee controlled pooled investment vehicles**

The scheme is the sole investor pooled investment vehicles held with M&G, Insight and Highbridge. The assets underlying these pooled investments are:

	2023	2022
	£'m	£'m
Interest bearing securities	728	1,158
Derivatives	(2)	2
Cash	184	31
Pooled investment vehicles	67	18
	977	1,209

10. Pension Funding Partnership

The Scheme continues to hold an interest in the Pension Funding Partnership (PFP), a special purpose vehicle set up by the Company, which was acquired by investing £367 million in 2010.

With effect from February 2020, the Trustee and the Company have amended the terms of the PFP. Under the revised arrangements:

- (i) the PFP is scheduled to be in place until 2030 (previously 2024) at which time the Trustee will be able to sell its interest in the PFP to the Company for an amount no greater than the deficit at that time, up to a maximum of £430 million. However, should the Scheme show a surplus at a future triennial actuarial valuation, based on a set of agreed prudent assumptions and excluding any value for the PFP, then the Company may request that the PFP is terminated early, which will require the agreement of the Trustee.
- (ii) the amount of the annual coupon payments has been adjusted to take account of the expected longer duration of the PFP, giving rise to a reduction from circa £25 million a year to £11.4 million a year (with no change to the total potential coupons of £125 million between 2020 and 2030), and
- (iii) the annual coupon payments have become contingent on there being a deficit (excluding the value of the PFP) in the funding position of the Scheme as at the start of the Scheme year (rather than being payable regardless of the funding position).

The total payment received by the Scheme during the year ended 31 March 2023 was £0 million (2022 - £0 million).

The valuation of the Scheme's interest in the PFP has been derived using a fair value model and applying appropriate discount rates to the annual coupon payments. The terminal value is calculated using stochastic projections and is discounted at an appropriate rate to allow for the expected funding level of the Scheme, the time value of money and illiquidity and credit risk factors.

Diageo Pension Scheme

Notes to the Financial Statements
For the year ended 31 March 2023

10. Pension Funding Partnership (continued)

Key estimation uncertainties within the PFP Valuation

The value of the interest in the PFP can be analysed between the annual coupon payments and the terminal payment as follows:

	2023 £'m	2022 £'m
Value of annual coupon payments	11	16
Value of terminal payments	56	85
	<u>67</u>	<u>101</u>

The main factors giving rise to the reduction in the valuation of the PFP from last year are the time to the terminal payment reducing by a year and the significant rise in gilt yields.

The principal factors which impact the valuation of the PFP are the determination of appropriate illiquidity and credit risk factors, i.e. the risk premium above the gilt yield used in the discount rate, and the Scheme funding level projected as at 31 March 2030 which sets the level of the terminal payment.

Risk Premium

The range of risk premia set out below highlights the impact on the two elements of the PFP valuation as at 31 March 2023.

Risk Premia	Value of the annual coupons	Value of the terminal payment	Total PFP value
%	£'m	£'m	£'m
1.70	11	57	68
1.85	11	56	67
1.95	11	56	67
2.05	11	56	67
2.20	11	55	66

The Trustee of the Scheme has determined that 1.85% (2022: 1.85%) is the most appropriate risk premium to apply to the discount rate used within the PFP valuation.

Scheme Funding Level

The Scheme funding level used in the PFP valuation to determine the deficit position at 31 March 2030 is formed using stochastic projections based on the deficit position at 31 March 2021 as calculated by the Scheme actuary. The sensitivity of the PFP valuation as at 31 March 2021 to this funding level calculation is highlighted as follows:

Change in funding level	Impact on total valuation of PFP
%	£'m
-10	+114
+10	-47

Diageo Pension Scheme

Notes to the Financial Statements
For the year ended 31 March 2023

11. Sale and Repurchase Agreements

The Scheme uses sale and repurchase agreements to increase the fixed interest exposure within the Scheme as part of the liability hedging programme.

Index linked securities have been sold subject to contractual agreements for the repurchase of equivalent securities. Security for these agreements is provided by the cash received on sale and by the exchange of collateral in the form of Interest-bearing securities.

	As at 31 March 2023 £'m	As at 31 March 2022 £'m
Value of interest-bearing investments sold subject to repurchase agreements	421	1,915
Value of cash received on sales as at 31 March 2023	454	2,106
Inherent finance cost	-	-
	454	2,106

Collateral in the form of interest-bearing securities with a value of £43 million (2022: £180 million) has been deposited with counterparties to cover the exposure between the two totals above. The value of cash received on Sale and Repurchase agreements, including the inherent finance costs, used for investment strategy purposes is included as an investment liability in Note 9.1.

The finance cost of entering sale and repurchase agreements is included separately in Note 8.

12. Derivatives

(i) Swaps

The Scheme enters into Swap contracts principally to hedge the volatility of interest rate and inflation rate movements on the Scheme's actuarial liabilities or for other risk management purposes. These contracts are traded over the counter. At the year end, outstanding contracts were as follows:

Nature	Nominal amounts £'m	Duration	Asset value £'m	Liability Value £'m
Interest Rate Swaps	3,015	Within 1 year	187	(29)
Interest Rate Swaps	1,944	1 to 10 years	70	(386)
Interest Rate Swaps	4,676	Over 10 years	596	(1,274)
Inflation Swaps	88	Within 1 year	2	(6)
Inflation Swaps	3,386	1 to 10 years	229	(179)
Inflation Swaps	3,888	Over 10 years	175	(269)
Other Swaps	513	Within 1 year	29	(5)
Other Swaps	97	Over 10 years	-	(53)
			1,288	(2,201)

Diageo Pension Scheme

Notes to the Financial Statements
For the year ended 31 March 2023

12. Derivatives (continued)

(i) Swaps (continued)

At the year end, the Scheme had pledged net £1,003 million (2022: £1,043 million) of collateral in the form of UK treasury stock to cover the above swap contract positions. £61 million cash and £36m UK treasury stock (2022: £26 million cash and £34 million UK treasury stock) was deposited by counterparties.

(ii) Forward contracts

Certain Scheme investment managers use forward foreign exchange contracts to balance the risk of investing in foreign currencies given their Sterling denominated benchmarks. Details of the principal open forward contracts at the year-end are as follows:

Number of Contracts	Currency bought £'m	Currency sold £'m	Aggregate asset £'m	Aggregate liability £'m
4	GBP 124	EUR 123	1	-
11	GBP 697	USD 685	12	-
			<u>13</u>	<u>-</u>

(iii) Futures

The Scheme enters into fixed interest futures contracts to hedge interest rate risk resulting from fixed interest investments in overseas fixed interest markets. The Scheme had exchange traded fixed interest futures outstanding at the year-end as follows:

Nature	Duration	Nominal Amount £'m	Asset value at year end £'m	Liability Value at year end £'m
Futures Fixed Interest – UK	Less than 3 Months	196	4	-
Futures Fixed Interest – Overseas	Less than 3 Months	(6)	-	(1)
			<u>4</u>	<u>(1)</u>

13. Cash Deposits

	2023 £'m	2022 £'m
Sterling	195	125
Foreign Currency	66	63
	<u>261</u>	<u>188</u>

Diageo Pension Scheme

Notes to the Financial Statements
For the year ended 31 March 2023**14. Other Investment Assets**

	2023	2022
	£'m	£'m
Accrued investment income	13	15
Outstanding settlements	2	27
	<u>15</u>	<u>42</u>

15. Other Investment Liabilities

	2023	2022
	£'m	£'m
Obligation to return collateral	220	178
Outstanding settlements	1	3
	<u>221</u>	<u>181</u>

16. Concentration of Investments

The Scheme holds more than 5% of its total net investments in the following pooled investment vehicles.

	2023		2022	
	£'m	%	£'m	%
HPS Direct Lending Fund	362	8	332	5
Insight Secured Finance	307	6	396	6
M&G Conservative European Loan Fund	172	4	409	6
Insight Liquidity Plus 2	122	3	556	8

17. AVC investments

The Trustee holds assets invested separately from the main Scheme in the form of individual insurance policies and unitised investments securing additional benefits on a money purchase basis for those members electing to pay Additional Voluntary Contributions (AVCs). Members participating in this arrangement each receive an annual statement showing the value of their individual holdings. The aggregate amounts of AVC investments are with the following AVC providers:

	2023	2022
	£'m	£'m
Prudential	6	4
Standard Life	1	1
Other	1	1
	<u>8</u>	<u>6</u>

Diageo Pension Scheme

Notes to the Financial Statements
For the year ended 31 March 2023

18. Capital Commitments

Pooled investment vehicles

As a consequence of contracts entered into with the relevant investment managers, the Scheme is committed as at 31 March 2023 to complying with funding requests, known as drawdowns, up to an agreed maximum funding limit.

	2023	2023	2023
	Maximum Commitment £'m	Drawn down to date £'m	Available for future draw- down £'m
Private equity (Pantheon)*	1,144	957	187
Property (CBRE)	37	33	4**
Secured commercial loans (HPS)*	826	718	108
Senior secured property loans (M&G)	511	427***	84
	<u>2,518</u>	<u>2,135</u>	<u>383</u>
	2022	2022	2022
	Maximum Commitment £'m	Drawn down to date £'m	Available for future draw- down £'m
Private equity (Pantheon)*	1,129	910	219
Property (CBRE)	37	33	4**
Secured commercial loans (HPS)	776	667	109
Senior secured property loans (M&G)	503	361***	142
	<u>2,445</u>	<u>1,971</u>	<u>474</u>

* The Scheme's investments (and commitments) in these funds are denominated in foreign currencies. Figures in the table have been obtained using the values in foreign currencies and appropriate exchange rates as at 31 March 2023.

** The CBRE mandate is currently in the process of being wound up therefore the outstanding capital commitment is not expected to be drawn down by the manager.

*** Includes £45m of capital commitment uninvested and now cancelled.

19. Fair value determination

The fair value of financial instruments has been determined 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 assessment dates.
Level 2	Inputs other than quoted prices included within Level 1 which 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.

Diageo Pension Scheme

Notes to the Financial Statements
For the year ended 31 March 2023

19. Fair value determination (continued)

Pricing frequency for pooled funds

The Scheme has a number of investments in pooled arrangements. Key attributes considered by the Trustee in categorising the pooled fund investments in the hierarchy are frequency of pricing and the ability to exit the investments at or close to that price. A summary of these attributes for the range of pooled investment vehicles used by the Scheme is set out below.

Insight – Prices are derived from the market value of the underlying loan and liquidity securities at close of business daily. In general, the Trustee is able to exit the fund holdings at the prices with no redemption restrictions, with exception of a proportion of the Secured Finance fund invested in illiquid assets (c35% as at 31 March 2023). These assets tend to be held until maturity.

Pantheon – Prices are based on a quarterly valuation process based on underlying quarterly financial reports and capital statements provided by the General Partner. The Trustee expects redemption periods to be up to a year or longer for these funds given the illiquid nature of the underlying private equity investments. Funds may need to be held for the lifetime of the closed-ended arrangements.

CBRE – The price of the pooled funds held is based on the monthly NAV information made available by the underlying investment managers. Although the NAV information is available monthly, the expectation of redeeming at this level is low and the Trustee expects redemption periods to be up to a year for these funds given the illiquid nature of the underlying property investments. As at 31 March 2023, the Scheme continued to invest in one fund within the CBRE mandate – Asia Alpha Plus III, which is currently in the legal process of winding up.

M&G

Conservative European Loan Fund – The fund is single priced at NAV on the first Irish business day of the month. The vast majority of the underlying loans in the portfolio are priced using prices sourced by the administrator from MarkIT Partners, a specialist loan price provider. The Trustee expects redemption periods to be up to a year for these funds given the illiquid nature of the underlying investments however this can be quicker in certain market conditions.

Senior secured property loan – The funds are single priced at NAV on a quarterly basis. The fixed-rate loans in the Funds are valued by the M&G risk team on a mark-to-model basis using a standard discounted cashflow methodology independently from the Real Estate Finance team. The floating-rate loans in the funds are valued at par unless impaired. The Trustee expects redemption periods to be up to a year for these funds given the illiquid nature of the underlying investments. Funds may need to be held for the lifetime of the closed-ended arrangements.

HPS – The funds are priced monthly on a fair value basis. The Trustee expects redemption periods to be up to a year or longer for these funds given the illiquid nature of the underlying loan investments. Funds may need to be held for the lifetime of the closed-ended arrangements.

Diageo Pension Scheme

Notes to the Financial Statements
For the year ended 31 March 2023

19. Fair value determination (continued)

Pension Funding Partnership (“PFP”) – The valuation of the PFP is calculated periodically by the Scheme actuary, typically on an annual basis. The asset is expected to remain in place until 2030 and cannot be realised before that date without the consent of the Company and other partners. The asset is unique to the Scheme and has limited liquidity.

As at 31 March 2023	Level 1 £'m	Level 2 £'m	Level 3 £'m	Total £'m
Interest-bearing securities	2,576*	900	-	3,476
Pooled investment vehicles	-	616	1,464	2,080
Pension Funding Partnership	-	-	67	67
Property	-	-	453	453
Derivatives	-	(897)	-	(897)
AVC investments	-	7	1	8
Sales and repurchase agreements	-	(454)	-	(454)
Cash deposits**	261	-	-	261
Other	(147)	(59)	-	(206)
	2,690	113	1,985	4,788

As at 31 March 2022	Level 1 £'m	Level 2 £'m	Level 3 £'m	Total £'m
Interest-bearing securities	4,893*	1,334	-	6,227
Pooled investment vehicles	-	1,439	1,410	2,849
Pension Funding Partnership	-	-	101	101
Property	-	-	674	674
Derivatives	-	(960)	-	(960)
AVC investments	-	5	1	6
Sales and repurchase agreements	-	(2,106)	-	(2,106)
Cash deposits**	101	87	-	188
Other	(151)	12	-	(139)
	4,843	(189)	2,186	6,840

* Included within the level 1 category are Interest-bearing securities G7 government bonds which the Trustee considers to be liquid.

** Short term cash investments included within Cash deposits

Diageo Pension Scheme

Notes to the Financial Statements For the year ended 31 March 2023

20. Investment risk disclosures

The Scheme has exposure to a number of investment risks, of which the principal risks are as follows:

(i) 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 Scheme is subject to credit risk from its holdings in bonds, loans, gilts, gilt repurchase agreements, derivatives and cash balances. As the Scheme is invested in a mix of segregated and pooled investment vehicles which contain these asset classes, it is subject to direct and indirect credit risk. The Scheme is also subject to credit risk from its interest in the Pension Funding Partnership (PFP) where the payments rely on a distribution of profits from the underlying partnership to which there is no absolute entitlement.

The Trustee manages credit risk by constructing a diverse portfolio of investments across various markets and with various investment managers. Where managers use derivatives and repurchase arrangements, these are generally collateralised to reduce risk.

Direct credit risk arising from pooled investment vehicles is mitigated by:

- the underlying assets of the pooled arrangements being ring-fenced from the manager (for unit trusts, OEICs and SICAVs),
- the regulatory environments in which the managers operate (for unit linked insurance contracts) and
- diversification of investments amongst a number of pooled arrangements.

Credit risk arising from the interest in the PFP is managed through collateralisation with barrels of maturing whisky spirit. The level of stock is updated on a regular basis and maintained with a margin. In the event of non-distribution of the annual or terminal payments the Trustee would have recourse to this collateral.

The Trustee carries out due diligence checks on the appointment of new investment managers and on an ongoing basis monitors any changes to the regulatory and operating environment of the managers.

Pooled fund investment arrangements used by the Scheme can include authorised unit trusts, unauthorised exempt unit trusts, OEICs and SICAVs. A full list of the structures used is set out in (v) below.

Cash is held within financial institutions which hold investment grade credit ratings.

The following table sets out the credit worthiness of those Scheme's assets that are subject to credit risk:

Diageo Pension Scheme

Notes to the Financial Statements
For the year ended 31 March 2023

20. Investment risk disclosures (continued)

31 March 2023	Investment grade £'m	Non-investment grade £'m	Unrated £'m	Total £'m
Interest-bearing securities	3,593	318	146	4,057
OTC derivatives	-	-	(899)	(899)
Cash	-	-	380	380
Repurchase agreements	-	-	(454)	(454)
Pooled Investment Vehicles	-	-	1,168	1,168
	3,593	318	341	4,252

31 March 2022	Investment grade £'m	Non-investment grade £'m	Unrated £'m	Total £'m
Interest-bearing securities	6,323	799	263	7,385
OTC derivatives	-	-	(957)	(957)
Cash	-	-	219	219
Repurchase agreements	-	-	(2,106)	(2,106)
Pooled Investment Vehicles	-	-	1,727	1,727
	6,323	799	(854)	6,268

A summary of pooled investment vehicles by type of arrangements is as follows:

	2023	2022
	£'m	£'m
Alternate investment fund	308	396
Open-ended investment companies	299	979
Shares of limited liability partnerships	7	55
Shares of limited partnerships	1,171	1,169
Irish section 110 company	291	238
Qualified investor fund	4	9
Common contractual funds	-	3
	2,080	2,849

Diageo Pension Scheme

Notes to the Financial Statements

For the year ended 31 March 2023

20. Investment risk disclosures (continued)

(ii) Currency risk

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

The Scheme is subject to currency risk from a proportion of its overseas holdings in private equity, property, bonds, loans and cash. The Scheme mitigates this risk by instructing the investment managers to hedge the currency exposure back to Sterling where they consider it appropriate in order to deliver the performance targets set within their mandate. However, given the nature of some of the Scheme's mandates, this is not always possible. As the Scheme is invested in a mix of segregated and pooled investment vehicles which contain these asset classes, it is subject to both direct and indirect currency risk. The table below sets out the Scheme's currency exposures.

	Direct exposure £'m	Hedging £'m	31 March 2023 Net exposure after hedging £'m	31 March 2022 Net exposure after hedging £'m
Euros	316	(271)	45	67
US Dollar	1,293	(703)	590	591
Japanese Yen	-	3	3	-
Other	53	(42)	11	15
	1,662	(1,013)	649	673

(iii) Interest rate risk

This is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates. The Scheme is subject to interest rate risk, both in absolute terms and also unhedged risk in relation to the liabilities.

The value of the Scheme's bonds, gilts, gilt repurchase agreements and certain derivatives are subject to interest rate risk.

However, this risk offsets a proportion (currently around 100% on gilts+0.5% p.a. basis) of the interest rate risk associated with the liabilities. If interest rates fall, the value of these investments will rise to help match the increase in the actuarial value of the liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, these assets will fall in value as will the actuarial value of the liabilities because of an increase in the discount rate.

The Scheme's liability hedging programme makes use of leverage in order 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 liability hedging programme invests in gilt repurchase agreements, swaps and other derivatives. The value of the Scheme's gilt repurchase agreements is shown as negative to balance out the physical gilt exposure within the hedging programme. The value of the Scheme's swaps within the liability hedging programme is shown as the net market value of these contracts which currently is negative.

Diageo Pension Scheme

Notes to the Financial Statements
For the year ended 31 March 2023

20. Investment risk disclosures (continued)

(iii) Interest rate risk (continued)

The table below sets out the Scheme's assets that are subject to interest rate risk:

	As at 31 March 2023	As at 31 March 2022
	£'m	£'m
Interest-bearing securities	4,057	7,385
Derivatives	(899)	(957)
Sale and repurchase agreements	(454)	(2,106)
Cash and other investment balances	380	219
Pension Funding Partnership	67	101
	3,151	4,642

(iv) Other price risk

This is the risk that the fair value or future cash flows of a financial asset will fluctuate 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.

Other price risk arises principally from the Scheme's growth and income assets, which includes principally private equity, property and loans. As the Scheme is invested in a mix of segregated and pooled investment vehicles which contain these asset classes, it is subject to both direct and indirect other price risk.

The Trustee manages other price risk by constructing a diverse portfolio of investments across markets and with various investment managers.

At 31 March 2023, the scheme was directly exposed to other price risk through its investment property portfolio valued at £453m (2022: £674m).

(v) Indirect Risks

As the Scheme is invested in a number of pooled investment vehicles which contain assets that are subject to credit, currency and market risks, the Scheme is exposed indirectly to these risks. These risks are understood by the Trustee and mitigated through diversification of both fund manager and underlying asset class. These risks are only taken on by the Scheme if the Trustee believes that the expected reward from such an investment justifies the underlying risk being taken.

The following table illustrates the extent to which the Scheme's pooled investments are subject to the above risks:

Diageo Pension Scheme

Notes to the Financial Statements
For the year ended 31 March 2023

20. Investment risk disclosures (continued)

(v) Indirect Risks (continued)

Asset Class	Credit risk	Currency risk	Interest rate risk	Other price risk
Private Equity funds	No	Yes	No	Yes
Property funds	No	Yes	No	Yes
Loan funds	Yes	Yes	Yes	Yes

The structure of the Scheme's pooled investments is as follows:

Fund Manager	Asset Class	Structure of investment
Insight	Liquidity/ loan funds	Managed segregated custody accounts IIFIG Multi Asset Credit Fund IV (an Irish Alternative Investment Fund), liquidity fundILF, which are sub-funds of Insight Global Funds II Plc, an open-ended investment company
Pantheon	Private equity	Scottish LP, English LP, Delaware LP, Luxembourg Special LP & Guernsey Corporate
CBRE	Property	Segregated account investing in underlying pooled funds including limited partnerships, investment companies and alternative investment funds
M&G	Loans	Irish OEIC (SCMLF1, SCML2, REDF IV & CLIP) close ended funds structured as Irish Section 110 Companies CELF, an open-ended investment company
HPS	Loans	Cayman Islands exempted limited partnerships

(vi) Other Risks

In addition, the Trustee has identified a number of other risks that will impact on the funding level and contribute to funding risk which they consider when assessing the risk profile of the Scheme's investments. These include:

- **Cashflow risk** – the Trustee manages this risk by taking into account the timing of future payments in order to minimise the probability that there is a shortfall in liquid assets relative to the Scheme's liabilities. The Investment Committee monitors liquidity and cashflow at each of its meetings and on an ongoing basis via reporting produced by its investment advisors.
- **Concentration risk** – the Trustee ensures that the assets held by the Scheme within each mandate and asset class are well diversified, that is, there is no single investment within each mandate or asset class that is material in the context of the Scheme as a whole. The Trustee monitors this via investment reports produced by the managers and the custodian.
- **Covenant risk** – the Trustee reviews the strength of the sponsoring employer's covenant on a regular basis and is confident that the sponsor is strong and therefore able to withstand adverse future experience. The covenant is assessed using a Covenant Scorecard that covers a number of key company metrics.

Diageo Pension Scheme

Notes to the Financial Statements

For the year ended 31 March 2023

20. Investment risk disclosures (continued)

(vi) Other Risks (continued)

- **Operational risk** – the Trustee manages this risk by ensuring that all advisers and third-party service providers are suitably qualified and experienced, and that suitable liability and compensation clauses are included in all contracts for professional services received. The Trustee delegates the responsibility for monitoring the suitability of the Scheme's investment managers to the Investment Committee which meets with the managers at least once in the year. The Trustee also reviews the investment managers ISAE/AAF control reports (or equivalent) on an annual basis.
- **Climate risk** - Climate change is a systemic risk that could impact a number of the other risks outlined above. Transition and physical risks arising as a direct or indirect consequence of climate change may impact on asset pricing, the credit quality of companies and counterparties and interest rate and inflation expectations, all of which could impact the funding level. The Trustee manages this risk through investment in a diversified portfolio and engagement with its asset managers to ensure that climate risks are factored into decision making. More information on the Trustee's approach is set out in its Responsible Investment policy and TCFD report.

21. Investment management expenses

	2023 £'m	2022 £'m
Administration, management and custody	35	35

Included within administration, management and custody fees above are fees of £4 million, £3 million, and £4 million which were deducted from the value of the Scheme's assets by HPS, M&G and Pantheon respectively (2022: £4 million, £3 million, and £5 million)

The investment management expenses reported above include £3 million (2022: £6 million) of performance related management fees.

22. Current assets

	2023 £'m	2022 £'m
VAT recoverable	4	5

23. Current liabilities

	2023 £'m	2022 £'m
Accrued expenses	9	13
Tax payable on pensions	3	3
VAT payable	4	-
Accrued benefits	1	1
	<u>17</u>	<u>17</u>

Diageo Pension Scheme

Notes to the Financial Statements For the year ended 31 March 2023

24. Tax

The Diageo Pension Scheme is a registered pension scheme for tax purposes under the Finance Act 2004. The Scheme is therefore exempt from taxation except for certain withholding taxes relating to overseas investment income. Tax charges are accrued on the same basis as the investment income (see Note 8) to which they relate.

25. Related party transactions

The Scheme has received employee contributions in respect of certain Directors of the Trustee Company who are also contributing members of the Scheme. The Scheme has paid benefits to certain Directors and spouses of Directors of the Trustee Company who are also beneficiaries of the Scheme. The Trustee directors received annual fees totalling £185,125 (2022: £178,625) for services as Trustee of the Diageo Pension Scheme. These fees include £16,500 (2022: £16,500) for services to Diageo Lifestyle Plan which are borne by the Diageo Pension Scheme. The aggregate of such fees and expenses is included as part of administration costs in Note 7. All of these transactions are in accordance with the Rules of the Scheme.

The Scheme has an interest in the Pension Funding Partnership (PFP) controlled by Diageo plc (see Note 10). The Trustee has received legal advice that the Scheme's interest in the PFP does not classify as an employer-related investment.

26. Employer Related Investments

At 31 March 2023, the Scheme did not hold any Diageo plc shares directly (2022: nil).

At 31 March 2023, contributions due from the Company were £nil (2022: £nil).

At 31 March 2023, the Scheme did not indirectly hold greater than 5% Diageo plc shares in any of its pooled investment holdings (2022: less than 5%).

27. Contingent liabilities

In October 2018, the High Court ruled that pension schemes are required to equalise benefits between men and women for the effect of Guaranteed Minimum Pensions (GMP) which were accrued on or after 17 May 1990.

The High Court has since determined that trustees owed a duty to a transferring member to make a transfer payment which reflected the member's right to equalised benefits. Where the initial transfer payment was inadequate on this basis the trustee is under an obligation to make a top-up payment to the receiving scheme on behalf of the transferred member.

The Trustees are carrying out a GMP equalisation project, which comprises equalising and converting GMP benefits and offering Member Options to members. Communications with members on this project and the Member Options exercise are expected to be undertaken during the second half of 2023.

Diageo Pension Scheme

Notes to the Financial Statements
For the year ended 31 March 2023

28. Subsequent events

Credit facility

As a result of the de-risking actions taken by the Trustee which improved collateral resilience the decision was made by the Trustee to end the interim credit facility provided by the Company on 25 July 2023.

Capita cyber incident

As reported in the Trustee's Report, Capita Pensions Solutions Limited (Capita), the administrator of the Scheme, 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 has taken action to comply with its regulatory obligations, including informing relevant regulators and communicating with affected members.

Diageo Pension Scheme

Diageo Pension Scheme – Implementation Statement (forming part of the Trustee Report)

Statement of Compliance with the Trustee of the Diageo Pension Scheme’s (“the Scheme”) Stewardship Policy for the year ending 31 March 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 its Stewardship Policy during the period from 1 April 2022 to 31 March 2023.

Stewardship policy

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

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

The Trustee’s Stewardship Policy is reviewed on an annual basis in line with the Scheme’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 delegated engagement activity in respect of the underlying assets to the Scheme’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 management on issues which affect a company’s financial performance.

Policy implementation

The Trustee’s own engagement activity is focused on its dialogue with its investment managers which is undertaken in conjunction with its investment adviser. The Pensions Investment Committee (PIC) is responsible for engagement with the managers and reporting back to the Trustee. During the last year, the investment managers were invited to join a number of meetings with the PIC or its sub-groups, where engagement formed part of the agenda. The managers’ exercise of their stewardship was considered both during these meetings and through reporting provided by the investment adviser.

The Trustee also monitors its compliance with its Stewardship Policy on a regular basis and is satisfied that it has complied with the Scheme’s Stewardship Policy over the last year.

Voting activity

The Trustee seeks to ensure that its managers are exercising voting rights and, where appropriate, monitors the managers’ voting patterns. The Scheme does not currently invest in public equities and therefore has no material exposure to assets which carry any voting rights. As a result, the Trustee’s monitoring activity focused on the managers’ wider engagement with investee companies over the reporting period.

Diageo Pension Scheme

Diageo Pension Scheme – Implementation Statement (forming part of the Trustee Report) (continued)

Engagement activity

The PIC on behalf of the Trustee engages with the managers on a number of areas including responsible investment and stewardship issues. Over the last 12 months, the PIC met with the majority of the managers, prioritising engagement on the mandates where actions were required due to planned changes to the portfolio (as part of de-risking activities) or where mandates were particularly affected by changes in market conditions (e.g. Insight in relation to LDI in the last quarter of 2022). In addition, a Responsible Investment (RI) working group (sub-group of the Trustee) met with each of the managers to discuss the managers' integration of RI factors into the investment process, monitoring of wider Environmental, Social and Governance (ESG) metrics, options for setting ESG targets and alignment with the Trustee's net zero carbon emissions ambition. Throughout the year the managers also maintained regular dialogue with Hymans Robertson, the Scheme's Investment Adviser.

At each meeting with its managers, the Trustee, PIC or RI sub-group sets a comprehensive agenda to assist 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 costs and RI including stewardship. Where the RI sub-group is meeting with a manager the agenda is focussed on RI and stewardship priorities as noted above.

Managers are also periodically asked to provide details of any updates in relation to their RI and stewardship policies and to confirm whether any investments breach or contradict the Trustee's Responsible Investment Policy. The managers are also asked to illustrate by means of examples where ESG issues have been taken into account in decision making for the portfolio.

The key areas of discussion are set out below:

- Following the first climate metrics gathering exercise completed for the Trustee's first Taskforce for Climate-Related Financial Disclosures (TCFD) report, the RI sub group focused on monitoring of wider ESG metrics for the Scheme's mandates and scope for setting additional targets. The managers will be expected to report on the agreed ESG metrics (relevant for a given mandate) on a regular basis, in addition to the standard investment reporting already provided.
- The RI sub group continued to work with the managers to understand alignment of the assets with the Trustee's net zero emissions ambitions and how this can be improved over time – this included further engagement on how to practically achieve the net zero target for the property portfolio.
- The level of engagement managers have had during the year with the underlying investee companies. Although the Scheme's assets do not hold voting rights, the majority of the Scheme's managers are active in engaging with underlying companies to understand and manage ESG risks.

Cost transparency

As the steward of the Scheme's assets, the Trustee is also responsible for reviewing costs associated with management of the assets to ensure that these accurately reflect value added by the manager and are broadly comparable with industry standards. The Trustee regularly reviews fees and the RI sub group have consider the impact of costs and fees in relation to setting any ESG targets.

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Diageo Pension Scheme – Implementation Statement (forming part of the Trustee Report) (continued)

Manager engagement activity

The Trustee does not engage directly but expects the 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. Engagement will be approached in different ways depending on the structure of each mandate, for example through direct engagement with investee companies, engagement with security issuers or underlying fund managers.

The nature of the assets permitted in the LDI portfolio (government bonds and cash) means there is limited scope for manager engagement on ESG matters. Nevertheless, where relevant, the Trustee expects its LDI manager to engage with the government and regulators on governance issues and relevant consultations. During the reporting period, the RI sub group engaged with the LDI manager on assessment of counterparties on ESG matters and alignment with net zero. Discussions in relation to this area are continuing.

Review of policies

The Trustee reviewed its own RI policy over the last year with the main updates made in relation to the Trustee's exclusions policies. Both the Trustee and its advisors remain satisfied that the responsible investment policies of the managers and, where appropriate, the voting policies remain suitable for the Scheme and are compliant with the Trustee's RI policy. The Trustee and its sub groups continue to provide feedback on the managers' RI policies to encourage evolution and prompt constructive debate.

Appendix – Statement of Investment Principles

This is the Statement of Investment Principles (the "Statement") made by Diageo Pension Trust Ltd (the "Trustee"), as Trustee of the Diageo Pension Scheme ("the Scheme") in accordance with the Pensions Act 1995 (as amended). The Statement, which was approved by the Trustee at its meeting on 30 November 2022, is subject to periodic review at least every three years and without delay after any significant change in investment policy.

In preparing this Statement, the Trustee has consulted with the employer to the Scheme (Diageo plc) and has taken and considered written advice from the Investment Practice of Hymans Robertson LLP.

In relation to the Myners Code of Conduct for Investment Decision Making, the extent of the Trustee's adoption of the Code is provided in a separate document named the Myners Code Adherence Document.

The Trustee is supportive of the UK Stewardship Code which seeks to improve the quality of engagement between institutional investors and investee companies. Where appropriate, the Trustee expects investment managers to comply with the code and to produce a statement of their commitment to the code.

Scheme objective

The primary objective of the Scheme is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis.

The Trustee's overall investment objective is to manage the assets of the Scheme prudently so as to ensure that the benefits promised to members can be provided when they fall due.

In order to meet this objective, the Trustee seeks to:

- build up assets to provide for new benefits of active members as they are earned plus an allowance for the costs of death in service benefits and administration expenses, including premiums levied by the Pension Protection Fund;
- ensure that there are always sufficient assets of the Scheme (at their realisable value) to meet 100% of benefits as they fall due for payment to members; and
- recover any shortfall in assets relative to the value placed on accrued liabilities as determined by a triennial or other actuarial valuation over a defined recovery period as agreed with the Company. Any required recovery plan is normally determined by taking into account the size of the funding shortfall, the business plan of the Company, the Trustee's assessment of the financial covenant of the Company, any contingent security offered by the Company and the Scheme's investment strategy.

For employee members, benefits are based on service completed but take account of future salary increases. The value of liabilities is calculated on the basis agreed by the Trustee and the Scheme Actuary; the Trustee also considers the Scheme's funding position on a more stringent minimum risk or "self-sufficiency" basis. The funding position is monitored regularly by the Trustee and formally reviewed at each triennial actuarial valuation, or more frequently as required by the Pensions Act 2004.

Investment strategy and structure

The Trustee has translated its objectives into a suitable strategic (asset allocation) benchmark for the Scheme. The strategic benchmark is consistent with the Trustee's view on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk.

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Appendix – Statement of Investment Principles (continued)

The level of investment risk in the Scheme will be reduced as the funding level improves towards the self-sufficiency target.

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

The investment strategy takes account of the maturity profile of the Scheme (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used) and the Trustee's view of the covenant of the principal employer.

The Trustee monitors strategy relative to its agreed asset allocation benchmark. It is intended that investment strategy will be reviewed at least every three years following actuarial valuations of the Scheme, and will normally be reviewed annually. Written advice is received as required from professional advisers.

The Trustee monitors the performance of Scheme investments relative to agreed criteria on a regular basis.

The Trustee has delegated all day to day investment decisions to authorised investment managers.

The Trustee considers 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.

Choosing investments

The Trustee appoints investment managers to manage Scheme investments. All investment managers are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Trustee, after taking appropriate advice, has given the investment managers specific guidelines including, but not limited to, asset allocation and geographic spread, on how investment mandates are to be managed. The investment managers are allowed some flexibility of choice subject to their benchmarks and other guidelines and are expected to maintain diversified portfolios.

The Trustee reviews the nature of Scheme investments on a regular basis, with particular reference to suitability and diversification. The Trustee seeks and considers written advice from a suitably qualified person when determining the appropriateness of each manager and mandate for the Scheme, particularly in relation to diversification, risk, expected return and liquidity. If, at any time, investment in a security or product not previously known to the Trustee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

Strategic benchmark

The investment managers are instructed to deliver a specific performance target, which overall will align to deliver the broader Scheme investment strategy. The Trustee ensures that all manager engagements have clearly defined benchmarks, objectives and management parameters.

Where appropriate, and where commercial considerations permit, the terms of the mandate and the basis on which the manager is engaged will be defined specifically for the Scheme. Where such tailoring is not directly achievable, the Trustee will invest in pooled funds where the objectives of the fund and the policies of the investment manager will be evaluated by the Trustee to ensure that they are appropriate for the needs of the Scheme. The Trustee is satisfied that the pooled funds selected are consistent with the objectives of the Scheme, particularly in relation to diversification, risk, expected return and liquidity.

Investment manager remuneration

Remuneration for each mandate is determined at the inception of each mandate based on commercial considerations and typically set on an ad valorem basis. Where appropriate to the nature of the mandate, the

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Appendix – Statement of Investment Principles (continued)

term of the mandate and the role the mandate plays within the investment strategy, the Trustee may agree to a fee structure where the manager is incentivised to deliver outperformance relative to an agreed benchmark, typically in conjunction with a lower ad valorem fee. The Trustee periodically reviews the fees paid to all of its managers against industry standards.

Investment time horizon

The Trustee recognises the long-term nature of its liability profile and appoints its managers to invest in such a way that generates long-term sustainable returns. The Trustee will carry out necessary due diligence on the underlying investment decision making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the Scheme's objective.

The duration of each mandate is determined by the Trustee at the inception of each mandate. For open-ended investments, the Trustee generally engages managers on an ongoing basis with no pre-determined term of appointment. For such mandates, the Trustee expects the minimum duration of the appointment will be three years, this being the period over which performance of the mandate can be appropriately evaluated although all mandates are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy. For close-ended investments, the Trustee expects the term of the appointment to be the lifetime of the investment.

Balance between different kinds of investments

The Scheme's investment managers will each hold a mix of investments which reflects their views relative to their respective benchmarks or return targets. Within each asset class each manager will maintain a diversified portfolio of investments.

Expected return on investments

Over the long term, the overall level of investment returns is expected to exceed the rate of return assumed by the Scheme Actuary in calculating the required funding for the Scheme.

Realisation of investments

The majority of the Scheme's investments may be realised quickly if required. Floating rate loans, property, private equity and private debt, which together represent approximately 35% of total Scheme assets under the current strategic benchmark (as at 30 September 2022), may be difficult to realise quickly in certain circumstances. Due to market movements over 2022 to the end of September, the actual allocation to these assets increased to more than 50%. However, as part of its de-risking strategy, the Trustee is commencing running down a number of the more illiquid investments within the Scheme.

Kinds of investment to be held

The Scheme may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, floating rate loans, cash, property, private equity, hedge funds and commodities either directly or through pooled funds.

The Scheme may also make use of contracts of insurance, derivatives and contracts for difference (either directly or in pooled funds investing in these products) for the purpose of efficient portfolio management or to hedge specific risks. The Trustee considers all of these classes of investment to be suitable in the circumstances of the Scheme.

Risk

The Scheme is exposed to a number of risks which pose a threat to the Scheme meeting its objectives. The principal risks affecting the Scheme are:

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Appendix – Statement of Investment Principles (continued)

Funding risks

- Financial mismatch – The risk that Scheme assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics – The risk that longevity improves and other demographic factors change, increasing the cost of the Scheme benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Scheme's liabilities. Climate change is a particular systemic risk that has the potential to cause economic, financial and demographic impacts.

The Trustee measures and manages financial mismatch in a number of ways.

- The Trustee has set a strategic asset allocation benchmark for the Scheme. The Trustee assesses risk relative to that benchmark by monitoring the Scheme's asset allocation and investment returns relative to the benchmark. The Trustee also assesses risk relative to liabilities by monitoring the delivery of returns relative to liabilities.
- The Trustee keeps mortality and other demographic assumptions, which could influence the cost of benefits, under review. These assumptions are considered formally at triennial valuations and the Trustee may enter into insurance contracts (bulk annuities or longevity swaps) to reduce these demographic risks.
- The Trustee seeks to mitigate systemic risks through a diversified portfolio and regularly meets with its investment managers to monitor performance. However, it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Scheme cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk – The risk that the currency of the Scheme's assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.
- Environmental, Social and Governance (ESG) risks - the extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations. Climate risk is viewed as a subset of ESG risks and is the extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy.

The Trustee manages asset risks as follows.

- The Trustee provides a practical constraint on Scheme investments deviating greatly from the intended approach by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within their expected parameters.

Diageo Pension Scheme

Appendix – Statement of Investment Principles (continued)

- By investing across a range of assets, including quoted bonds (and possibly in the future bulk annuity policies), the Trustee recognises the need to access funds in the short term to pay benefits.
- In appointing several investment managers, the Trustee has considered the risk of underperformance by any single investment manager.
- The Trustee does not expect managers to take excess short-term risk and will regularly monitor the manager's performance against an appropriate benchmark on a short, medium and long-term basis.
- The Trustee's approach to the consideration of ESG risks including climate risk is set out in further detail below.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers.
- Custody risk - The risk of loss of Scheme assets or losing economic rights to Scheme assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.
- Operational risk – The risk of loss as a result of fraud, cyber attacks, poor advice, acts of negligence or lack of suitable process
- Legislative risk – The risk that managers of the Scheme fail to comply with changes to legislation.

The Trustee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Scheme, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). When carrying out significant transitions, the Trustee seeks professional advice.

Manager engagement**Performance evaluation**

The Trustee carries out regular monitoring of the Scheme's investments and managers through regular meetings with the managers, review of investment performance relative to the benchmark and reporting on strategic and funding risks. The Trustee also seeks information from its investment managers on meeting objectives of the mandates and exercising stewardship responsibilities (including engagement with issuers) as set out in greater detail below, and the management of other risks. Material deviation from performance or risk targets is likely to result in the mandate being formally reviewed.

Portfolio turnover

The Trustee has expectations of the level of turnover within each mandate which is determined at the inception of the mandate, based on the Trustee's knowledge of the manager, investment process and the nature of the portfolio. Whilst the Trustee expects performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustee expects managers to report on at least an annual basis on the underlying assets held within the portfolio and details of any transactions over the period. The Trustee will challenge the manager if there is a sudden change in portfolio turnover or if the level of turnover seems excessive.

The Trustee will request turnover costs incurred by the asset manager over the Scheme reporting year. Where possible the Trustee will compare costs to the theoretical portfolio turnover and cost for an appropriate index.

Diageo Pension Scheme

Appendix – Statement of Investment Principles (continued)

Consideration of financially material factors in investment arrangements

The Trustee recognises that the consideration of financially material factors over the appropriate time horizon of the investments, including ESG factors, is relevant at different stages of the investment process. The Trustee further recognises that the financial materiality of any factor, including ESG factors, is context specific and that whilst some factors may be relevant to certain stocks/assets, they may not be relevant to others.

The Trustee will consider such factors in the development and implementation of their investment arrangements, for the purposes of determining the selection, retention and realisation of investments, where there is sufficient data or evidence to allow them to systematically do so. Where there is not sufficient data or evidence, they will engage with their investment managers to ensure they take such considerations into account within their decision making. The Trustee has 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, reflected in the principles set out below and the broader implementation of strategy.

Strategic considerations

The strategic benchmark has been determined using appropriate long-term economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors.

The Trustee regularly discusses the impact of climate change on investment decisions with its investment adviser/investment managers to consider the potential implications for the Scheme's investments. The Trustee has not yet made explicit allowance for the risks of climate change in setting its strategic asset allocation nor in setting its benchmark given current inherent uncertainty but carries out regular reviews when meeting with managers. The Trustee recognises the significance of climate change-related risks and has carried out scenario analysis and stress testing and reported against the Taskforce for Climate-related Financial Disclosures (TCFD). As part of TCFD the Trustee has set climate metrics and targets and a Net Zero aspiration for the Scheme.

Structural considerations

Given the discretion afforded to the active Investment Managers, the Trustee expects that its Investment Managers will take account of all financially material factors including the impact of ESG factors in the implementation of their respective mandates.

Within active mandates, the Trustee has delegated responsibility for the consideration of stock specific issues to its individual investment managers. The Trustee has discussed the extent to which ESG issues, where relevant to the investment mandate, are integrated into the investment processes of its investment managers and is satisfied that the investment managers are following an approach which takes account of all financially material factors.

Selecting and monitoring investment managers

The Scheme's managers have produced statements setting out their ESG policy and authority has been delegated by the Trustee to the managers to act accordingly. However, the Trustee recognises that the ESG policies may not be specific to the Scheme's assets. The Trustee reviews ESG activity as part of the monitoring process with each manager – 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. The Trustee reviews the Scheme's Responsible Investment policy annually and maintains the portfolio mapping document which summarises each manager's ESG policy and their progress to continuously improve their ESG risk management framework. Additionally, the Trustee meets with managers regularly to receive updates on their progress and to encourage improvements on their ESG practices.

In selecting new investment managers for the Scheme, where relevant to the investment mandate, the Trustee explicitly considers potential managers' approaches to responsible investment and the extent to which managers integrate ESG issues in the investment process as a factor in their decision making.

Diageo Pension Scheme

Appendix – Statement of Investment Principles (continued)

Consideration of non-financially material factors in investment arrangements

Given the objectives of the Scheme, the Trustee has not considered any non-financially material factors in the development and implementation of its investment strategy.

The Trustee has not imposed any restrictions or exclusions to the investment arrangements based on non-financially material factors.

However, the Trustee may consider investing in specific ESG-focused opportunities within the existing mandates or introduce new portfolios which explicitly consider ESG factors in the asset selection process. In doing so, the Trustee will take into account the investments' risk-return profile to ensure the overall risk within the strategy is within the Trustee's tolerance level and does not compromise security of members' benefits.

Stewardship

The Trustee recognises that stewardship encompasses the exercise of voting rights, engagement of investment managers with the entities they invest in, engagement with investment managers and the monitoring of compliance with agreed policies.

Voting and engagement

The Scheme no longer has any investments in company shares and so does not have voting rights over any of its investments.

Where appropriate, the Trustee will engage with and may seek further information from its investment managers on how portfolios may be affected by a particular issue.

The Trustee does not engage directly but expects its investment managers to engage with key stakeholders which may include corporate management, regulators and governance bodies, relating to its investments in order to consider the management of conflicts of interest, improve corporate behaviours, improve performance and mitigate financial risks. The Trustee will review engagement activity undertaken by its investment managers as part of its broader monitoring activity.

The Trustee separately considers any conflicts of interest arising in the management of the Scheme and its investments and has ensured that each manager has an appropriate conflicts of interest policy in place.

Monitoring

The Trustee meets with all its investment managers regularly. Managers are challenged both directly by the Trustee and by its investment advisers on the impact of any significant issues including, where appropriate, ESG issues that may affect the prospects for return from the portfolio. They are also asked to confirm awareness of any investments that breach or contradict the Trustee's Responsible Investment policy.

Additional Voluntary Contributions (AVCs)

The Trustee gives eligible members the opportunity to invest in a range of funds at the individual member's discretion.

Signed for and on behalf of the Trustee of the Diageo Pension Scheme



Peter Goshawk
Chairman
Diageo Pension Trust Limited
Trustee of the Diageo Pension Scheme