

CAPITA



Diageo Lifestyle Plan

Pension Scheme Registry Number: 10274789

Trustee's Annual Report and Financial Statements
For the Year Ended 31 December 2019

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Trustee and its Advisers

The Trustee

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

Employer Nominated

C D Coase (Chairman)

Trustee Nominated

S Fennessy²

M Hatchman^{1,3} (*Resigned 26 November 2019*)

D Heginbottom²

C B James^{2,3}

C S Wehrle^{1,2}

E McShane (*Appointed 26 November 2019*)

Member nominated

J H Cant²

J Donaldson

C D Isaacs¹

A R Lynn^{1,3}

E G Paxton³

I C Shaw^{2,3}

¹Audit Committee member

²Investment Committee member

³Discretions Committee member

The main committees of the Trustee Board are the Investment, Audit and Discretions Committees, the members of which, as at the year end, 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, Lakeside Drive,
Park Royal, London, NW10 7HQ

Advisers

Sponsoring Employer:

Diageo plc (the Company)

Actuary:

J Miller FIA – Aon

Auditor:

KPMG LLP

Banker:

Lloyds Bank plc

Custodian:

Northern Trust Global Services Limited

Investment Adviser:

Hymans Robertson LLP

Life Insurance:

Canada Life Group Insurance

Solicitor:

Linklaters LLP

Investment Managers:

Insight Investment Management (Global) Limited
M&G Investment Management Limited

Diageo Lifestyle Plan

Trustee and its Advisers

Administrator:

The administrator for the Plan is Capita Employee Solutions; for which contact details are as follows:

Diageo Lifestyle Plan

Capita

PO Box 555

Stead House

Darlington DL1 9YT

Telephone: 0333 222 0086

Email: diageopensions@capita.co.uk

Website: www.hartlinkonline.co.uk/diageo

Trustee's Report

The Trustee is pleased to present to members of the Plan its report together with the audited financial statements for the year ended 31 December 2019.

Plan Management

The Plan

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

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

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

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

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

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

The Trustee

The Plan is established under a Trust and the power to appoint or remove a Trustee rests with the Company. The Company has appointed a Corporate Trustee, Diageo Pension Trust Limited, as the Trustee of the Plan. The Directors of the Trustee Company 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.

The Directors of the Trustee Company are set out on page 2 along with their advisers. The chairman Charles Coase is a professional trustee, as defined by the Pensions Regulator. None of the other Directors are professional trustees as defined by the Pensions Regulator.

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

The Pensions Act 2004 requires Directors to have knowledge and understanding of the law relating to pensions and trusts, the principles relating to the funding of occupational 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 a Director.

Trustee's Report

Plan Management (continued)

The Trustee (continued)

The Directors take their responsibilities seriously and have attended training courses to familiarise themselves with the requirements of their role and to keep abreast of new developments.

A training log is maintained to monitor the content and frequency of all training undertaken by each Director. All Directors complete The Pensions Regulator's Trustee Training Toolkit.

The Trustee ensures the security of members' benefits by periodic actuarial valuations, a carefully selected investment strategy and detailed internal control procedures.

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

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

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

The Discretions Committee is responsible for exercising certain discretions under the rules of the Plan.

Plan Administration

The Plan is administered on behalf of the Trustee by Capita Employee Solutions, for which contact details are set out on page 3.

Members can obtain information about their own pension benefits or further information about the Plan from Capita Employee Solutions.

Trustee's Report

Plan Management (continued)

Financial Development of the Plan

The financial statements of the Plan for the year ended 31 December 2019 are set out on pages 26 to 36. The financial statements have been prepared and audited in accordance with Section 41(1) and (6) of the Pensions Act 1995. The report of the independent auditor, which is unqualified, is set out on pages 23 to 24.

The fund account shows that the net assets of the Plan increased from £294.9 million at 31 December 2018 to £356.6 million at 31 December 2019. The increase in net assets is accounted for by:

Years ended	31 December 2019	31 December 2018
	£m	£m
Contributions paid in by the Company and members	34.7	31.3
Other Income	0.1	0.3
Benefits paid to members and payments in respect of leavers	(7.6)	(4.7)
Administrative and other expenses	(1.1)	(1.1)
Net increase from dealings with members	26.1	25.8
Net returns on investments	35.6	0.9
Total increase in net assets for the year	61.7	26.7
Net assets at the start of the year	294.9	268.2
Net assets at the end of the year	356.6	294.9

Actuarial valuation

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

The Plan is subject to a full actuarial valuation every three years. The results of the last full actuarial valuation at 1 January 2019 revealed a deficit, with the Plan's assets representing 99.6% of its technical provisions. On a solvency basis, which assumes the Plan was discontinued at the valuation date, the funding level was 76.8%.

From 1 January 2019 the employer contributions are paid at the agreed rate of 24% of pensionable pay. The rate of contributions payable by members is 6% of pensionable pay. The actuary's certification of the Schedule of Contributions is set out on page 22.

The funding position as at 1 January 2019 is included within the Plan Review 2019, available on the Plan's website. A copy of the formal 2019 valuation report is available to members and can be downloaded from the Plan's website or requested from the Administrator.

The date of the next formal actuarial valuation is 1 January 2022, the results of which will be communicated in the Plan Review 2022 and in the Trustee Report and Accounts for the year ended 31 December 2022.

Trustee's Report

Plan Management (continued)

Internal Control and Procedures

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

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

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

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

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

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

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

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

Trustee's Report

Plan Management (continued)

Plan Membership

The Plan had 5,134 members (including 50 members who are covered for lump sum death in service benefit only) as at 31 December 2019 (2018: 5,221). The composition of the Plan membership and movements during the year are shown below:

	Employee members	Deferred pensioners	Death benefit only [^]	Total
As at 31 December 2018	2,842	2,329	50	5,221
Adjustments*	(2)	5	-	3
New joiners**	25	-	-	25
Retirements***	(13)	(18)	-	(31)
Deaths	(2)	(2)	-	(4)
Leavers with refund or transfer out	(18)	(60)	-	(78)
Leavers with deferred pension entitlements	(188)	188	-	-
Change in death benefit only members	-	-	(8)	(8)
As at 31 December 2019	2,644	2,442	42	5,128

*The adjustments relate to late notification of members status changes so were not reflected in the previous closing membership.

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

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

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

Plan Benefits

Members build up a Retirement Account within the Plan.

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

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

Trustee's Report

Plan Management (continued)

Plan Benefits (continued)

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

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

In the event of a member's death in service, a lump sum is payable. The amount is the greater of the value of the member's Retirement Account or 6 times Pensionable Pay during the year to 31 December before death. For members covered for a death in service lump sum only, the lump sum will generally be one times basic pay. The Trustee has full discretion as to whom to make this payment taking account of the member's wishes. The lump sum benefit payable on death in service is insured under a separate policy with Canada Life.

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

Contributions

The Company contribution rate from 1 January 2019 is 24% of Pensionable Pay with the member's rate of contribution at 6% of Pensionable Pay.

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

The contribution rates for members and the employers are documented in the Schedule of Contributions that was in force over the year. A copy of the actuary's certification of the latest Schedule of Contributions is included on page 22.

The Trustee's summary of contributions in respect of the year ended 31 December 2019 and the independent auditor's statement about contributions are set out on pages 10 and 25 respectively.

All contributions due from members and the employers for the year ended 31 December 2019 have been received by the Plan by the date required in the Schedule of Contributions.

Statement of Trustee's responsibilities in Respect of Contributions

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

Trustee's Report

Plan Management (continued)

Trustee's Summary of Contributions Payable under the Schedule of Contributions in respect of the Year Ended 31 December 2019

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 Plan under the Schedule of Contributions, certified on 1 August 2019, which was effective during the year 1 January 2019 to 31 December 2019. The Plan's independent auditor reports on contributions payable under the Schedule of Contributions in the independent auditor's statement about contributions.

During the year ended 31 December 2019 the contributions payable to the Plan under the Schedule of Contributions were as follows:

	2019
	£000
Employers:	
Normal contributions	33,981
Employee:	
Normal contributions	705
Contributions payable under the Schedule of Contributions and reported in the accounts	<hr/> 34,686 <hr/>

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 LLP, the Plan's professional investment adviser.

Investment Strategy

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

The Trustee has translated its investment objective into a strategic asset allocation target for the Plan, with 50% of the assets allocated to investments intended to deliver a secure long-term investment return and 50% intended to reduce volatility and risk in the funding level of the Plan. The investment strategy takes account of the liability profile of the Plan, together with the level of disclosed surplus or deficit.

The Plan's investment strategy includes 'leveraged' gilt funds to achieve a broad level of liability matching whilst at the same time releasing capital to invest in funds expected to deliver an enhanced return (called "cash plus" funds).

A leveraged gilt fund works by investing in more gilts than the asset value of the fund. For example, a two times leveraged fund would have £200 of gilt exposure for every £100 invested in the fund. This is achieved by the fund entering into repurchase agreements with selected banks which is effectively a means of borrowing money from the banks to purchase the additional gilts. In return the fund pays interest for the 'loan' to the banks. This is a commonly used risk-managed investment practice for pension schemes such as this Plan.

Investment Managers

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

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

Trustee's Report

Investment Matters (continued)

Investment Managers (continued)

The benchmark asset allocation for the Plan as at 31 December 2019 is:

Manager	Benchmark Allocation
Insight	
LDI solution funds	50%
M&G	
Syndicated senior secured commercial loans fund	25%
M&G	
Asset backed securities (ABS) fund	25%

Investments

The total net investments of the Plan at 31 December 2019 were £353.8 million (31 December 2018: £293.3 million). The analysis of these investments is set out in the Statement of Net Assets on page 27 and in note 10 to the financial statements. The Plan's total net investments may be summarised as follows:

Manager	As at 31 December 2019		As at 31 December 2018	
	£m	%	£m	%
Insight				
LDI solution funds	160.2	45.3	128.8	43.9
Insight				
Liquidity fund	5.0	1.4	19.4	6.6
M&G				
Syndicated senior secured commercial loans fund	94.5	26.7	72.3	24.7
M&G				
Asset backed securities fund	94.1	26.6	72.8	24.8
Total	353.8	100.0	293.3	100.0

Trustee's Report

Investment Matters (continued)

Marketability of Investments

At 31 December 2019, £259.3 million (73.4%) (2018: £221.0 million (75.3%)) of the above investments (being the Insight LDI and M&G ABS mandates) were invested in pooled investment vehicles where the underlying investments are considered to be marketable on a short-term basis.

The M&G ABS fund is priced and traded on a monthly basis. Notice of 25 calendar days is required for redemptions and the fund will pay redemption proceeds within 5 business days of the dealing date.

The M&G loans mandate is a bespoke pooled fund structure that only the Plan and Diageo Pension Scheme invests in. It is considered less liquid given the nature of the underlying investments. Depending on market conditions, M&G can require a notice period of up to 60 calendar days for redemptions.

Diversification of Investments

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

Self-Investment

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

Code of Myners Principles

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

Review of Investment Performance

The investment return achieved by the Plan, and its constituent portfolios, is measured by the custodian, Northern Trust Global Services Limited. The Plan's investment return as at 31 December 2019 is shown below.

Manager	12 months (%)	3 years (% p.a.)	5 years (% p.a.)
Insight			
LDI solution funds	18.6	8.3	12.5
Benchmark	18.6	8.3	12.5
M&G			
Syndicated senior secured commercial loans fund	5.9	2.9	3.6
Benchmark	0.8	0.6	0.6
M&G			
Asset backed securities fund	3.7	N/A	N/A
Benchmark	0.8	N/A	N/A
Total	12.2	5.3	7.5
Benchmark	10.3	5.0	7.0

Trustee's Report

Investment Matters (continued)

Review of Investment Performance (continued)

The return for the year to 31 December 2019 was 12.2%, 1.9% ahead of the benchmark return. The Plan achieved an annualised return of 5.3% and 7.5% over the past three and five years respectively, outperforming benchmarks over both periods. The Plan's outperformance was mainly driven by the M&G funds as both funds delivered returns well in excess of the LIBOR benchmark, and in excess of their performance targets. Over 1 year, Insight's LDI portfolio was the main driver of the Plan's positive performance in absolute terms. This was primarily due to the decline in gilt yields during 2019 which led to positive absolute returns from gilts and index-linked gilts.

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 Plan's investment principles covering its approach to investing the Plan's assets. The Trustee's current Statement of Investment Principles is available on the Plan's website.

Departures from Investment Principles

To the best of its knowledge, the Trustee can report that there has not been any departure from the SIP by the Plan's investment managers during the year ended 31 December 2019.

Stewardship

The Trustee endorses the principles of the UK Stewardship Code 2012. 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 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. The Trustee's approach to the consideration of ESG risks, climate risk and stewardship is set out in the Plan'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 beliefs policy and reflected in the principles set out below and the broader implementation of strategy.

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.

Custodian Arrangement

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

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

Trustee's Report

Investment Matters (continued)

COVID -19

In early 2020, a new coronavirus, COVID-19, impacted a significant number of countries globally. COVID-19 has caused disruption to businesses and economic activity which has been reflected in recent fluctuations in global stock markets and, in turn, in the valuation of Scheme assets. The Trustee consider the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event. The Trustee have designed and implemented the Scheme's investment strategy taking a long term view (and have built in resilience to withstand short term fluctuations). Given the inherent uncertainties, it is not practicable at this time to provide a quantitative estimate of the impact of this disruption on the Scheme's asset valuation at the date of approval of these financial statements.

Trustee's Report

Compliance Matters

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

Transfer Values

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

The Pensions Advisory Service ("TPAS")

TPAS is available to 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.

TPAS may be contacted at:

11 Belgrave Road
London SW1V 1RB
Telephone: 0800 011 3797

Pensions Ombudsman

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

10 South Colonnade
Canary Wharf
London E14 4PU
Telephone: 0800 917 4487

Pensions Regulator

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

The Pensions Regulator may be contacted at:

Napier House
Trafalgar Terrace
Brighton BN1 4DW
Telephone: 0345 600 0760

Pension Tracing

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

The Pension Service 9
Mail Handling Site A
Wolverhampton
WV98 1LU
Telephone: 0800 731 0193

Trustee's Report

Statement of Trustee's Responsibilities

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

- (i) show a true and fair view of the financial transactions of the Plan during the Plan year and of the amount and disposition at the end of the Plan year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Plan 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 Plan's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless there is an intention to wind up Plan or no realistic alternative but to do so; and
- making available each year, commonly in the form of a Trustee's annual report, information about the Plan prescribed by pensions legislation, which should be consistent with the financial statements it accompanies.

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 Plan and to prevent and detect fraud and other irregularities.

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

Trustee's Report

Report on Actuarial Liabilities

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

The most recent full actuarial valuation of the Plan was carried out as at 1 January 2019. This showed that on that date:

- The value of the Technical Provisions was: £296 million
- The value of the Plan's assets at that date was: £295 million

The method and significant actuarial assumptions used to determine the technical provisions as at 1 January 2019 are set out in the Appendix to the Statement of Funding Principles and summarised below.

Method

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

Significant Actuarial Assumptions

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

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

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

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

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

Trustee's Report

Report on Actuarial Liabilities (continued)

Significant Actuarial Assumptions (continued)

Financial assumptions summary: The following spot yields have been used for the technical provisions calculations as at 1 January 2019, calculated using the methodology set out above:

Term	Discount rate (%)	Salary increases (excluding promotional) (%)	RPI price inflation (%)	CPI price inflation (%)	Limited RPI pension increases with 5% cap (%)	Limited CPI pension increases with 5% cap (%)
1	1.24%	3.14%	3.14%	2.39%	3.18%	2.32%
2	1.23%	3.14%	3.14%	2.39%	3.16%	2.36%
3	1.27%	3.14%	3.14%	2.39%	3.15%	2.37%
4	1.34%	3.14%	3.14%	2.39%	3.14%	2.37%
5	1.41%	3.15%	3.15%	2.40%	3.13%	2.38%
6	1.49%	3.17%	3.17%	2.42%	3.14%	2.41%
7	1.57%	3.21%	3.21%	2.46%	3.16%	2.44%
8	1.65%	3.25%	3.25%	2.50%	3.19%	2.48%
9	1.73%	3.30%	3.30%	2.55%	3.22%	2.52%
10	1.81%	3.35%	3.35%	2.60%	3.25%	2.56%
11	1.90%	3.40%	3.40%	2.65%	3.28%	2.60%
12	1.97%	3.45%	3.45%	2.70%	3.32%	2.64%
13	2.05%	3.50%	3.50%	2.75%	3.34%	2.67%
14	2.12%	3.54%	3.54%	2.79%	3.37%	2.71%
15	2.18%	3.57%	3.57%	2.82%	3.39%	2.73%
16	2.24%	3.60%	3.60%	2.85%	3.41%	2.76%
17	2.28%	3.62%	3.62%	2.87%	3.42%	2.78%
18	2.32%	3.63%	3.63%	2.88%	3.43%	2.79%
19	2.36%	3.64%	3.64%	2.89%	3.43%	2.79%
20	2.39%	3.64%	3.64%	2.89%	3.43%	2.80%
21	2.41%	3.64%	3.64%	2.89%	3.42%	2.79%
22	2.42%	3.63%	3.63%	2.88%	3.41%	2.79%
23	2.43%	3.61%	3.61%	2.86%	3.40%	2.78%
24	2.44%	3.60%	3.60%	2.85%	3.38%	2.76%
25	2.44%	3.58%	3.58%	2.83%	3.36%	2.74%
26	2.43%	3.55%	3.55%	2.80%	3.33%	2.72%
27	2.43%	3.53%	3.53%	2.78%	3.31%	2.70%
28	2.42%	3.50%	3.50%	2.75%	3.28%	2.68%
29	2.40%	3.47%	3.47%	2.72%	3.25%	2.65%
30	2.39%	3.44%	3.44%	2.69%	3.23%	2.63%
31	2.37%	3.41%	3.41%	2.66%	3.20%	2.60%
32	2.35%	3.38%	3.38%	2.63%	3.17%	2.58%
33	2.33%	3.35%	3.35%	2.60%	3.14%	2.55%
34	2.31%	3.33%	3.33%	2.58%	3.11%	2.53%
35	2.30%	3.30%	3.30%	2.55%	3.09%	2.51%
36	2.28%	3.28%	3.28%	2.53%	3.07%	2.49%
37	2.26%	3.26%	3.26%	2.51%	3.05%	2.48%
38	2.25%	3.25%	3.25%	2.50%	3.03%	2.46%
39	2.24%	3.23%	3.23%	2.48%	3.01%	2.45%
40	2.23%	3.22%	3.22%	2.47%	3.00%	2.44%
41	2.21%	3.21%	3.21%	2.46%	2.98%	2.43%
42	2.21%	3.20%	3.20%	2.45%	2.97%	2.42%
43	2.21%	3.19%	3.19%	2.44%	2.96%	2.40%
44	2.21%	3.19%	3.19%	2.44%	2.95%	2.40%
45	2.21%	3.20%	3.20%	2.45%	2.95%	2.40%

Trustee's Report

Report on Actuarial Liabilities (continued)

Significant Actuarial Assumptions (continued)

Term	Discount rate (%)	Salary increases (excluding promotional) (%)	RPI price inflation (%)	CPI price inflation (%)	Limited RPI pension increases with 5% cap (%)	Limited CPI pension increases with 5% cap (%)
46	2.21%	3.21%	3.21%	2.46%	2.95%	2.41%
47	2.21%	3.21%	3.21%	2.46%	2.95%	2.41%
48	2.22%	3.24%	3.24%	2.49%	2.96%	2.42%
49	2.24%	3.26%	3.26%	2.51%	2.98%	2.44%
50	2.24%	3.28%	3.28%	2.53%	2.99%	2.45%

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

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

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

Expected return on assets: No allowance will be made for the expected outperformance of the Plan's assets compared to the discount rate in the recovery plan.

Pre-Retirement mortality Males: Standard table AMC00, scaling = 80%
Females: Standard table AFC00, scaling = 80%
Sample rates are shown below

Ill health retirement Males: Standard table AMC00, scaling = 75%
Females: Standard table AFC00, scaling = 75%
Sample rates are shown below

Early retirement No allowance has been made for non-ill health retirements before Normal Retirement Date

Withdrawals No allowance has been made for withdrawals from service or transfers out of the Plan

Promotional salary increases Allowance made for age-related promotional increases
Sample rates are shown below

Diageo Lifestyle Plan

Trustee's Report

Report on Actuarial Liabilities (continued)

Significant Actuarial Assumptions (continued)

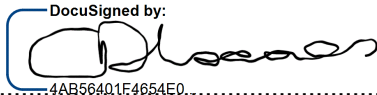
Current age	Percentage leaving the Plan in the next year as a result of				% Promotional salary increase for men and women
	Death before retirement		Ill health retirement		
	Men	Women	Men	Women	
20	0.04	0.02	0.03	0.01	7.5
25	0.04	0.02	0.04	0.02	6.0
30	0.04	0.02	0.04	0.02	4.5
35	0.05	0.03	0.05	0.03	3.0
40	0.07	0.05	0.06	0.05	1.0
45	0.10	0.08	0.09	0.07	1.0
50	0.16	0.12	0.15	0.12	1.0
55	0.27	0.21	0.26	0.20	1.0
60	0.49	0.35	0.45	0.33	1.0

Approval of the Trustee's Report by the Trustee

Signed for and on behalf of the Trustee on 26 May 2020:



Trustee Director

DocuSigned by:


Trustee Director

Actuary's Certification of the Schedule of Contributions

ACTUARIAL CERTIFICATION OF THE SCHEDULE OF CONTRIBUTIONS

Name of scheme: Diageo Lifestyle Plan

Adequacy of rates of contributions

I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective can be expected to be met by the end of the period specified in the recovery plan dated 1 August 2019.

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 1 August 2019.

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 wound up.

Signature:



Date: 1 August 2019

Name:

James Miller

Qualification:

Fellow of the Institute and Faculty of Actuaries

Address:

Verulam Point
Station Way
St Albans
AL1 5HE

Name of employer:

Aon Hewitt Limited

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

Opinion

We have audited the financial statements of Diageo Lifestyle Plan ("the Plan") for the year ended 31 December 2019 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 Plan during the Plan year ended 31 December 2019 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Plan 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 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

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

Going Concern

The Trustee has prepared the financial statements on the going concern basis as they do not intend to wind up the Plan, and as they have concluded that the Plan'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").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Trustee's conclusions; we considered the inherent risks to the Plan and analysed how those risks might affect the Plan's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

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 absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Plan will continue in operation.

Independent Auditor's Report (continued)

Other information

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

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

Trustee's responsibilities

As explained more fully in their statement set out on page 17, the Plan Trustee is responsible for: supervising the preparation of financial statements which show a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Plan's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to wind up the Plan, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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



Philip Merchant

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

St Vincent Plaza

319 St Vincent Street

Glasgow

G2 5AS

Date: 26 May 2020

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

Statement about contributions

We have examined the summary of contributions payable under the Schedule of Contributions to the Diageo Lifestyle Plan in respect of the Plan year ended 31 December 2019 which is set out on page 10.

In our opinion contributions for the Plan year ended 31 December 2019 as reported in the summary of contributions and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions effective 1 January 2019 and certified by the actuary on 1 August 2019.

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 Plan 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 17, the Plan's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the Plan by or on behalf of the employer and the active members of the Plan. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Plan and for monitoring whether contributions are made to the Plan by the employer in accordance with the Schedule of Contributions.

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

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

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



Philip Merchant

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

St Vincent Plaza

319 St Vincent Street

Glasgow

G2 5AS

Date: 26 May 2020

Fund Account

For the Year Ended 31 December 2019

	Note	2019 £000	2018 £000
Contributions and benefits	3		
Employer contributions		33,981	30,559
Employee contributions		705	702
Total contributions		<u>34,686</u>	<u>31,261</u>
Other income	4	61	281
		<u>34,747</u>	<u>31,542</u>
Benefits paid or payable	5	(1,606)	(1,021)
Payments to and on account of leavers	6	(5,972)	(3,654)
Plan expenses	7	(547)	(545)
Other payments	8	(532)	(502)
		<u>(8,657)</u>	<u>(5,722)</u>
Net additions from dealings with Members		<u>26,090</u>	<u>25,820</u>
Returns on investments			
Investment income	9	3,777	2,802
Change in market value of investments	10	32,601	(1,611)
Investment management expenses	11	(770)	(305)
Net returns on investments		<u>35,608</u>	<u>886</u>
Net increase in the fund during the year		61,698	26,706
Net assets of the Plan at start of year		<u>294,953</u>	<u>268,247</u>
Net assets of the Plan at end of year		<u>356,651</u>	<u>294,953</u>

The accompanying notes on pages 28 to 36 form an integral part of these financial statements.

Diageo Lifestyle Plan

Statement of Net Assets (available for benefits)

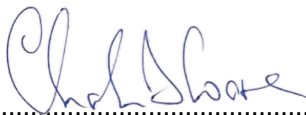
As at 31 December 2019

	Note	2019 £000	2018 £000
Investment assets:	10		
Pooled investment vehicles		349,542	290,321
Cash		3,723	3,223
Other investment balances		560	497
		353,825	294,041
Investment liabilities:			
Other investment balances		-	(690)
Total net investments		353,825	293,351
Current assets	14	3,136	1,727
Current liabilities	15	(310)	(125)
Net assets of the Plan at end of year		356,651	294,953

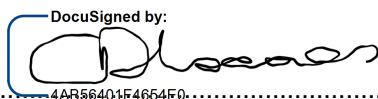
The financial statements summarise the transactions of the Plan and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Plan year. The actuarial position of the Plan, which considers such obligations for the Plan, is dealt with in the Report on Actuarial Liabilities on pages 18 to 21 of the Annual Report and these financial statements should be read in conjunction with this report.

The notes on pages 28 to 36 form an integral part of these financial statements.

These financial statements were approved by the Trustee on 26 May 2020 and signed on its behalf by:



Trustee Director

DocuSigned by:


Trustee Director

Notes to the Financial Statements

For the year ended 31 December 2019

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 the next twelve months. In reaching this conclusion, the Trustee considered plausible downside scenarios resulting from the impact of the COVID 19 outbreak. The result of the trustee assessment being that the strength of the employer covenant and its ability to continue to make contributions as they fall due is not significantly impacted. This assessment gives the Trustee confidence to prepare the financial statements on a going concern basis.

2. Accounting policies

The principal accounting policies of the Plan are as follows:

Contributions receivable and other income

- i. Employees’ normal contributions are recognised as and when they are deducted from the related salary.
- ii. Employers’ contributions are recognised in accordance with the agreement between the Trustee and the relevant employer.
- iii. Lumps sums received from death in service insurers are recognised on an accruals basis.

Benefits payable and payments to leavers

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

Individual transfers and re-instatements

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

Administrative expenses and investment management expenses

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

Investments

- i. Investments are included at market value.
- ii. Pooled Investment Vehicles are stated at the bid or single price, as provided by the investment manager at the year end.
- iii. Cash deposits represent the balance held on deposit at the year-end.

Notes to the Financial Statements

For the year ended 31 December 2019

2. Accounting policies (continued)

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

Investment income

- i. Interest on cash deposits is accounted for on an accrual's basis.
- ii. Investment income arising from the underlying investments of the Insight LDI fund is reinvested and reported within the Change in Market Value in note 10. Investment income arising from the underlying investments of the Insight Liquidity fund, the M&G Commercial Loan fund and the M&G ABS fund is distributed as income and is separately reported within note 9.

Presentation currency

The Plan functional and presentation currency is pounds sterling.

3. Contributions

	2019 £000	2018 £000
Employer contributions		
Normal	33,981	30,559
Employee contributions		
Normal	705	702
	<u>34,686</u>	<u>31,261</u>

Employer normal contributions include £6,232,000 (2018: £6,520,000) contributions made on behalf of members under the salary sacrifice arrangement.

4. Other income

	2019 £000	2018 £000
Claims on insurance policies	61	281

5. Benefits paid or payable

	2019 £000	2018 £000
Annuity purchases on retirement	480	88
Lump sums on retirement	731	702
Lump sum death benefits	330	231
Taxation where lifetime or annual allowance exceeded	65	-
	<u>1,606</u>	<u>1,021</u>

Notes to the Financial Statements

For the year ended 31 December 2019

6. Payments to and on account of leavers

	2019 £000	2018 £000
Refunds of contributions	11	66
Pension sharing on divorce	162	324
Individual transfers out to other schemes	5,799	3,264
	5,972	3,654

7. Plan expenses

	2019 £000	2018 £000
Pension administration costs	281	300
Professional fees	227	220
Regulatory fees	39	25
	547	545

8. Other payments

	2019 £000	2018 £000
Life assurance premiums	532	502

9. Investment income

	2019 £000	2018 £000
Income from pooled investment vehicles	3,772	2,315
Interest on cash deposits	5	487
	3,777	2,802

Notes to the Financial Statements

For the year ended 31 December 2019

10. Reconciliation of investments held at the beginning and end of the year

10.1 Investment Movements

	Value at 1 January 2019 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Value at 31 December 2019 £000
Pooled investment vehicles	290,321	78,680	(52,060)	32,601	349,542
	<u>290,321</u>	<u>78,680</u>	<u>(52,060)</u>	<u>32,601</u>	<u>349,542</u>
Cash deposits	3,223				3,723
Other investment balances	(193)				560
	<u>293,351</u>				<u>353,825</u>

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

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

10.2 Investment Summary

	2019 £000	2019 %	2018 £000	2018 %
Pooled Investment Vehicles				
LDI solution fund	159,012	44.9	127,536	43.5
Liquidity fund	5,044	1.4	19,458	6.6
Syndicated senior secured commercial loans fund*	93,247	26.4	71,662	24.4
Asset backed securities fund	92,239	26.1	71,665	24.4
	<u>349,542</u>	<u>98.8</u>	<u>290,321</u>	<u>98.9</u>
Cash deposits	3,723	1.1	3,223	1.1
Other investment balances	560	0.1	(193)	-
Total investment assets	<u>353,825</u>	<u>100.0</u>	<u>293,351</u>	<u>100.0</u>

* This fund is managed by M&G and currently the sole investors within the fund are the Diageo Lifestyle Plan and the Diageo Pension Scheme.

Notes to the Financial Statements

For the year ended 31 December 2019

11. Investment management expenses

	2019 £000	2018 £000
Administration, management and custody	770	305

Included within administration, management and custody fees above are fees of £600,000 (2018: £535,000) which were deducted from the value of the Plan's assets by M&G.

Included in the 2018 figure was £337,000 fee rebates in relation to the transfer out from Janus Henderson.

The investment management expenses reported above include no performance related management fees (2018: £Nil).

12. Fair value determination

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

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

Pricing Frequency

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

Manager	Mandate	Assets under management £m	Pricing Frequency	Trading frequency
Insight	LDI solutions	159.0	Daily	Daily
Insight	Liquidity fund	5.0	Daily	Daily
M&G	Syndicated senior secured commercial loan fund	93.2	Monthly	Monthly
M&G	Asset backed securities fund	92.2	Monthly	Monthly

The Plan's investment assets and liabilities have been fair valued using the above hierarchy levels as follows:

As at 31 December 2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Pooled Investment Vehicles	-	349,542	-	349,542
Cash	3,723	-	-	3,723
Total 31 December 2019	3,723	349,542	-	353,265

Notes to the Financial Statements

For the year ended 31 December 2019

12. Fair value determination (continued)

As at 31 December 2018	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Pooled Investment Vehicles	-	290,321	-	290,321
Cash	3,223	-	-	3,223
Total 31 December 2018	3,223	290,321	-	293,544

The Insight Liquidity fund was previously classified as a level 1 investment asset. This is an unlisted liquidity fund, rather than cash, therefore it has been reassessed that this is a level 2 investment. The M&G secured loan fund has also been reclassified as a level 2 investment, instead of level 3, due to the fact it is priced and trades monthly. Both the 2019 and 2018 figures shown above reflect this classification.

13. Investment risk disclosures

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

Credit risk

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

The Plan is subject to direct credit risk within the investment portfolio to the extent of the holdings in pooled investment vehicles and cash holdings. The Plan is indirectly exposed to credit risks arising on the underlying financial instruments held within the pooled investment vehicles.

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

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

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

The Plan's cash is placed with institutions which hold investment grade credit ratings.

31 December 2019	Investment Grade £000	Non-investment Grade £000	Unrated £000	Total £'000
Pooled Investment Vehicles	-	-	349,542	349,542
Cash	6,438	-	-	6,438
Other investment balance	-	-	560	560
	6,438	-	350,102	356,540

The above cash figure includes the Trustee bank account held with Lloyds Bank Plc.

Notes to the Financial Statements

For the year ended 31 December 2019

13. Investment risk disclosures (continued)

Credit risk (continued)

31 December 2018	Investment Grade £000	Non-investment Grade £000	Unrated £000	Total £'000
Pooled Investment Vehicles	-	-	290,321	290,321
Cash	4,665	-	-	4,665
Other investment balance	-	-	(193)	(193)
	<u>4,665</u>	<u>-</u>	<u>290,128</u>	<u>294,793</u>

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

	2019 £000	2018 £000
Qualifying Investor Alternative Investment Fund (QIAIF)	348,777	273,879
Undertakings for Collective Investment in Transferrable Securities (UCITS)	5,048	19,472
	<u>353,825</u>	<u>293,351</u>

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

Currency risk

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

The Plan is not directly exposed to currency risk as the pooled investment vehicles and cash held are denominated in Sterling.

Indirect exposure to currency risk is due to a proportion of the underlying financial instruments held within the pooled investment vehicles being denominated in overseas currencies. The majority of the overseas currency exposure can be attributed to the underlying instruments within the M&G Senior Secured Loan mandate which are denominated in European (excluding Sterling) and US currencies. The Plan mitigates this risk by instructing M&G to manage the currency exposure within their mandate and hedge this risk back to Sterling where appropriate, therefore reducing the impact of adverse currency movements.

Interest rate risk

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

The Plan is not directly exposed to interest rate risk across the pooled funds in which it has invested as the price of those funds is not directly affected by changes in interest rates.

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

Notes to the Financial Statements For the year ended 31 December 2019

13. Investment risk disclosures (continued)

Interest rate risk (continued)

The Plan has a target asset allocation of 50% to a liability matching portfolio, managed by Insight, which carries a leverage of around 2.9 times. As such, the Plan is subject to indirect interest rate risk as the value of these pooled funds will fluctuate due to interest rate movements. The impact on the Plan of interest rate movements is mitigated by the Insight portfolio, since changes in the value of the liabilities are broadly matched by changes in the value of this portfolio. For example, if interest rates fall, the assessed value of the Plan's liabilities will rise, and it is expected that the value of the liability matching portfolio will rise by a similar amount.

There is limited exposure to movements in interest rates in the M&G portfolios.

Other price risk

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

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

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

These include:

- **Cashflow risk** – the Trustee manages this risk by considering the amount and timing of the future payments into and out of the Plan. The Trustee has agreed that all contributions paid into the Plan will be split between the three mandates as required to seek to maintain the actual asset allocation in line with the Plan's benchmark asset allocation.
- **Risk of lack of diversification** – the Trustee ensures that the assets held by the Plan 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 Plan 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 several key company metrics.
- **Operational risk** – the Trustee manages this risk by ensuring that all advisors 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 Plan's investment managers to the Investment Committee which meets with the managers periodically. The Trustee also reviews the investment managers' ISAE/AAF control reports (or equivalent) on an annual basis.

Notes to the Financial Statements

For the year ended 31 December 2019

14. Current assets

	2019 £000	2018 £000
Cash balances	2,715	1,442
Prepayments and other	421	285
	3,136	1,727

15. Current liabilities

	2019 £000	2018 £000
Accrued expenses	177	124
Accrued benefits payable	49	-
Tax payable	84	1
	310	125

16. Related party transactions

Diageo pays certain administration expenses on behalf of the Plan and subsequently recharges these to the Plan. Included within Plan expenses in note 7 is £126,000 (2018: £192,000) of such expenses recharged by the Company in the year and within accrued fees payable in note 15 is an amount owed to the Company at the year end of £4,000 (2018: £5,000).

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

The Trustee Directors received annual fees totalling £5,000 (2018: £5,000) for services as Trustee of the Diageo Lifestyle Plan. The costs are borne by the Diageo Pension Scheme and are not reflected in these financial statements.

17. Employer related investments

There were no employer related investments during the year (2018: nil).

18. Contingent liabilities

The Plan had no contingent liabilities at the year-end (2018: nil).

19. Subsequent events

In early 2020, a new coronavirus, COVID-19, impacted a significant number of countries globally. COVID-19 has caused disruption to businesses and economic activity which has been reflected in recent fluctuations in global stock markets and, in turn, in the valuation of Scheme assets. The Trustee consider the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event. The Trustee have designed and implemented the Scheme's investment strategy taking a long term view (and have built in resilience to withstand short term fluctuations). Given the inherent uncertainties, it is not practicable at this time to provide a quantitative estimate of the impact of this disruption on the Scheme's asset valuation at the date of approval of these financial statements.