HYMANS ROBERTSON

Diageo Lifestyle Plan

Myners Adherence Document

August 2020

Prepared for

The Trustee of the Diageo Lifestyle Plan

Prepared by

Hymans Robertson LLP as Investment Adviser to the Plan

Contents

Myners Code

Introduction

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

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

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

This document is available to members on request.

This document was approved by the Trustee Board at its meeting on 4 August 2020.

Charles Coase

Chairman

Diageo Pension Trust Limited

Trustee of the Diageo Lifestyle Plan

1 Effective Decision Making

The Principle

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

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

Appointments

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

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

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

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

The Trustee has also established a Pensions Investment Committee (PIC) comprising of at least four directors of the Trustee board. The PIC meets four times each year or more frequently if required. The Terms of Reference for the PIC are included as Appendix B.

Terms of appointment

Trustee

The Trustee carries out the following roles:

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

Pensions Investment Committee

The PIC:

- informs the Trustee of decisions relating to the -
  - selection of investment advisers and fund managers;
  - structure for implementing investment strategy;
- monitors investment advisers and fund managers;
- monitors pooled funds and direct investments;
- makes ongoing decisions relevant to the operational principles of the Plan's investment strategy.

Investment Adviser

The role of the appointed Investment Adviser is to:

- advise on all aspects of the investment of the Plan assets, including implementation;
- advise on this statement;

- provide required training.

Fund Managers

The Trustee has delegated the day to day management of the Plan's investment portfolios (and related activities) to professional investment managers. Their role is to:

- operate within the terms of this document and their written contracts;
- select individual investments with regard to their suitability and diversification;
- act in lieu of the Trustee in exercising stewardship of the investments.

Trustee Knowledge & Understanding Relating to Investment

The Trustee ensures, as far as possible, that the level of knowledge and understanding relating to investments is at a high level across all directors. This is in line with The Pensions Regulator's code of practice November 2009 Trustee knowledge and understanding (TKU), which requires a broad base of knowledge on a variety of issues. All Trustee directors are expected to have completed the TKU assessment within six months of their appointment. Training is provided as required at all meetings of Trustee directors through the papers and presentations provided by the various advisors to the Plan. The Trustee directors also attend external courses and conferences where appropriate.

2 Clear Objectives

The Principle

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

Plan Objective

The primary objective of the Plan is to provide members with a Retirement Account that can be used on their retirement to provide a lump sum and/or annuity purchased from the open market. In addition, it provides benefits on death, before retirement, for their dependents. The Trustee's over-riding funding principles for the Plan are as follows:

- to invest the assets of the Plan prudently to ensure that the benefits promised to members are provided;
- to consider the lowest risk asset allocation which could be adopted in relation to the Plan's liabilities when setting the investment strategy; and
- to select an asset allocation strategy which is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meeting the Plan's liabilities.

Basis of Evaluation

The Plan is a cash balance defined benefit contributory scheme. Benefits are based on the cash balance of the accumulated funds which are dependent on pensionable salary allowing for inflationary increases. The benefits which members are able to purchase on retirement will depend on the value of their accumulated fund, the type of benefits they wish to purchase and the terms offered by annuity providers on retirement. The Trustee monitors the funding position of the Plan periodically to ensure there is not undue risk to member's benefits. The Trustee arranges for an actuarial valuation of the Plan to be conducted at least every three years.

Overall Investment Structure

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

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

The Trustee has considered, and is prepared to tolerate, the potential risks of moderate manager underperformance associated with the pursuit of index returns

Benchmarks are used to:

- evaluate manager's relative performance; and
- monitor the extent of manager's deviations from benchmark performance.

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

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

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

Transaction Costs

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

Custody

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

The Trustee will review the custody arrangements of the Plan from time to time. All assets held in pooled funds are subject to the independent custodianship arrangements arranged by the relevant investment manager.

3 Risk & Liabilities

The Principle

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

Trustees have a responsibility to establish and operate internal controls.

Basis for Determining Plan's Strategic Asset Allocation

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

Strategic Asset Allocation

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

In setting the strategic asset allocation, the Trustee takes account of the nature of the Plan's liabilities, the current funding position and the aggregate contribution rate payable. The Trustee also takes account of its own and the Company's attitude to risk. When choosing the asset allocation strategy the Trustee considered written advice from their investment advisers and, in doing so, addressed the following:

- the need to consider a full range of asset classes;
- the risks and rewards of a range of alternative allocation strategies;
- the suitability of each asset class;
- the need for appropriate diversification.

Expected Return on Assets

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

4 Performance assessment

The Principle

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

Investment Managers

The Trustee monitors the performance and activity of its investment managers on a quarterly basis as well as receiving presentations from the investment managers at least once a year.

Custodian

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

Other Advisers

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

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

Performance Relative to Liabilities

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

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

Assessing Decisions

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

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

5 Responsible ownership

The Principle

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

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

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

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

Asset risks

- 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.

Consideration of financially material factors in investment arrangements

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.

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 periodically discusses the impact of climate change on investment decisions with its investment adviser/investment managers to consider the potential implications for the Plan'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 at manager monitoring meetings. The Trustee recognises significance of climate change as an emerging risk and may take a more active approach to managing this risk in the future, for example by adopting the Task Force on Climate-related Financial Disclosures ("TCFD") framework.

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 potential impact of ESG factors in the implementation of their respective mandates.

Selecting investment managers

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 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.

The Plan'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 may be adopted to enable more efficient monitoring of ESG activity. The Trustee will consult its investment advisers if such a framework was to be developed. The Audit Committee reviews the Scheme's ESG policy annually and checks manager ESG policies annually.

In passive mandates, the Trustee recognises that the choice of benchmark dictates the assets held by the investment manager and that the manager has minimal freedom to take account of factors that may be deemed to be financially material. The Trustee accepts that the role of the passive manager is to deliver returns in line with the benchmark and believe this approach is in line with the basis on which its current strategy has been set.

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

Consideration of non-financially material factors in investment arrangements

Given the objectives of the Plan, 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 Trustee has adopted a policy of delegating voting decisions on stocks to its Investment Managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The Investment Managers are expected to exercise the voting rights attached to individual investments in accordance with their own house policies.

Where relevant, the Trustee has reviewed the voting policies of its Investment Managers and determined that these policies are appropriate.

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 including corporate management, regulators and governance bodies, relating to its investments in order to 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.

Monitoring

Investment Managers report on voting activity to the Trustee on a periodic basis. The Trustee will monitor Investment Managers voting activity and may periodically review managers voting patterns. The Trustee may also monitor Investment Managers' voting on particular companies or issues affecting more than one company.

The Trustee aims to meet with all its Investment Managers on a biannual basis. The Trustee provides their managers with an agenda for discussion, including where appropriate, ESG issues. 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 statement of Responsible Investment policy.

6 Transparency and reporting

The Principle

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

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

The Trustee's Approach to transparency

Each of the above points is addressed within this document.

The Trustee of the Plan has decided to split the contents of the Statement of Investment Principles (SoIP) into two distinct sections:

1 the formal SoIP covering the regulatory requirements;

2 the remainder of this document, which encompasses all of the additional information proposed by Myners.

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

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

The Trustee's Approach to reporting

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

Appendix A – Myners compliance status table

	Guidance	Comment	Progress
Effective Decision making	Who takes decisions	Trustee; sub-committee used from time to time	
	Sufficient skills, structures and processes	Agreed	
	Appropriate training provided	Annual training review	
	In house or advisory support sufficient	Aon Hewitt and Hymans Robertson LLP provide external advice	
	Investment sub-committee considered	Yes, sub-committee used as appropriate	
	Business plan drawn up	Yes	
	Separately compete actuarial / investment	Services tendered separately	
	Terms of reference specified	Covered in service agreement	
Clear Objectives	Overall objective based on liabilities	Yes	
	Parameters for e'er / e'ee contributions	Yes	
	Attitudes to risk and limits	Yes	
	Asset performance evaluations	Yes, monitoring in place	
	Managers' index benchmarks appropriate	Yes	
	Passive, active management considered	Yes	
	Benchmark guidelines considered	Yes	
	Manager mandates have performance objectives, benchmarks and risk constraints	Yes	
	Any asset types / classes excluded	No	
	Manager approach specified	Yes	
	Soft commission arrangements	Assessed for all managers	
	Transaction cost evaluation	Reporting provided by managers	
	Objectives, risk tolerances compatible to allow genuine active strategies	Yes	
Risk & Liabilities	Level of priority given to asset allocation	Yes	
	Range of asset classes considered	Yes	
	Compatibility of assets / liabilities	Yes	
	Bespoke, not peer group	Yes, bespoke	
Performance measurement	Regular performance monitoring - fund	In place	
	Regular performance monitoring - managers	In place	
	Monitoring of advisers, service providers	In place	
	Monitoring Trustee's procedures, decisions and how they have interpreted advice	In place	

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

Appendix B – PIC Terms of Reference

It is the responsibility of the Committee to

Manage the Investment Strategy

- Advise the Trustee on the investment strategy with the aim of providing funds to pay benefits and maintain funding levels over time, matched against the liability stream;
- Consider the relevance of financially material factors, including ESG (Environmental, Social and Governance) factors and climate risk, at different stages of the investment process;
- Clearly define the strategy including asset allocation changes, taking into account advice from Investment and actuarial advisors, and appropriate Company consultation;
- Review performance of the Investment Advisor on a regular basis and undertake assessment, present recommendations to the Trustee and replace where deemed necessary;
- Establish agreed trigger points for asset allocation changes, monitor and take appropriate actions;
- Assess pension scheme investment related risks and ensure appropriate mitigation plans are developed and implemented; and
- Review ESG activity as part of the manager monitoring process with each investment manager and considers the impact of climate change on investment decisions and potential implications for the Scheme's investments.

Manage the Investment Managers against defined Investment Strategy

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

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

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

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

- Give directions to the external managers on behalf of the Trustee with regard to any matter requiring the consent of the Trustee or on which managers seek direction;
- Agree investment manager terms of reference (objectives, benchmarks, guidelines and remuneration);
- Appoint transition managers as required from time to time and agree the transition managers' terms of reference; and
- Establish suitable arrangements for the management of the pension scheme's uninvested cash and foreign exchange requirements.
- Invoke a temporary Investment Committee Statement of Authorities framework for making accelerated and agile decisions for the management of pension assets during an emergency or crisis situation.

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