



DIAGEO LIFESTYLE PLAN PLAN REVIEW 2020

Read this update on what's been happening in your Plan this year.

DIAGEO
PENSIONS

CHAIRMAN'S REPORT



Welcome to the 2020 Diageo Lifestyle Plan Review.

We are in extraordinary times, for the world at large and for financial markets. The outlook is quite uncertain and will likely have changed by the time you receive this report. But I am able to provide you with reassurance that there has been no material adverse effect on the security of your pension benefits in the Plan or on the ability of our Administrator to provide continuing service to members of the Plan. There are some practical steps you can take to assist our administrator – see further below.

As always, we hope that our communications help you to understand the Plan and your benefits, and keep you up to date with relevant news and information. The key points are summarised below, with further detail and explanation in the subsequent pages.

Summary of the Plan's accounts for the year ended 31 December 2019

As you will see on page 4, the value of the Plan's net assets increased by more than 20% over the course of 2019, from £295.0 million to £356.6 million. This was largely due to the receipt of contributions of £34.7 million and very positive returns on investments amounting to £36.4 million, partly offset by payments to members and for Plan expenses of £9.5 million.

Investment review

Information on the investments held by the Plan, together with a summary of the investment strategy and details of past performance, is set out on pages 5 and 6. The overall investment return for the year to 31 December 2019 was 12.2%, 1.9% ahead of benchmark return of 10.3%. The Plan achieved an annualised return over three years of 5.3%, compared to the benchmark of 5.0%.

Over the year to 31 December 2019, the return on the Plan's liability matching funds was close to 20%, which matched the corresponding increase in the assessed value of the Plan's liabilities. There were returns on the Plan's other assets, ahead of benchmark, which contributed to the overall improvement in the funding level of the Plan during the year.

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CHAIRMAN'S REPORT

Funding update

During the year the funding level of the Plan improved from a deficit of £1.2 million at 1 January 2019 to a surplus of £8.4 million at 1 January 2020. Over the course of 2019, the assessed value of the liabilities increased significantly due to interest rates falling. However, this was more than offset by the positive returns on the Plan's assets. The Company is continuing to make contributions at the rate of 24% of members' Pensionable Pay.

You will find more information about the funding of the Plan in the annual summary funding statement on pages 7 and 8.

The Trustee does not expect that there has been a material adverse change in the funding position of the Plan since 1 January 2020.

Plan and other matters

You can find some general pensions news and information on other matters which affect members on pages 9 to 11.

Operational efficiencies in light of Covid-19

At the time of writing, we are all continuing to learn how to live and work in unusual circumstances. The Plan's Administrator, Capita, activated its business continuity plan and is continuing to deliver the normal services to members, albeit with some constraints on capacity and a focus on delivering the Plan's immediate priorities, including dealing with death cases, settlements, processing imminent retirements and meeting regulatory and statutory requirements.

You can help at this time by only sending urgent requests to the Administrator – please make use of the members' online portal, which gives you access to information on your pension benefits (see page 14 for further information). If you do need to contact the Administrator, we would ask that you do so by email rather than by phone or post if you can for the time being.

I hope that you find this report interesting and easy to understand. The Trustee welcomes any feedback you may have; please address any comments or questions to the Plan Administrator, whose contact details are shown on page 14.

As always, I would like to thank my fellow Trustee Directors, the administration team and all our advisers for their dedication and work for the Plan and you, its members, throughout the year.

Stay safe!



Charles Coase, **Chairman**

SUMMARY OF THE PLAN'S ANNUAL ACCOUNTS TO 31 DECEMBER 2019

Plan membership

5,128 Members at 31 December 2019

2,644 Active
2,442 Deferred
42 Death benefit only

5,221 Members at 31 December 2018

2,842 Active
2,329 Deferred
50 Death benefit only



Membership analysis at 31 December 2019

51.6% Active
47.6% Deferred
0.8% Death benefit only

Active members – current employees who participate in the Plan.

Deferred members – those members who have either opted out of the Plan or left the Company and still retain a benefit.

Death benefit members – current employees who have decided not to participate in the Plan for pension benefits and are only covered for a lump sum death benefit of one times basic salary.

The Plan does not have any pensioners. At retirement, members withdraw from the Plan the full amount of their Retirement Accounts and use this to secure their benefits on the open market.

Financial summary For the year ended 31 December 2019

The summary of the accounts shown has been extracted from the Trustee's Annual Report and Plan Financial Statements, which have been given a clean audit report by KPMG LLP.

	£m	£m
Value of the Plan's Net Assets at the start of the year		295.0
Received by the Plan		
Company and member contributions*	34.7	
Investment and other income	3.8	
Income	+	38.5
Paid from the Plan		
Benefits	1.6	
Payments in respect of leavers	6.0	
Administration, investment and life cover costs	1.9	
Expenditure		(9.5)
Change in value of investments		32.6
Value of Plan's Net Assets at the end of the year	=	356.6

*includes contributions payable to the Plan by the Company under salary sacrifice arrangements

INVESTMENT REVIEW

Investment Committee

The Investment Committee is appointed by the Trustee and operates under its own terms of reference. Assisted by the Plan's professional investment adviser, Hymans Robertson LLP, the Investment Committee is responsible for advising the Trustee on investment strategy and for appointing and supervising the external investment managers, who are independent of the Trustee and Diageo plc. It reports regularly to the main Trustee Board, making recommendations as appropriate.

The Investment Committee meets on a regular basis throughout the year. It reviews the performance of the Plan overall, as well as the investment returns of the individual managers, and deals with all other investment related issues. Manager monitoring meetings are held with the investment managers on a regular basis and the outcomes are reported back to the Committee.

Investment strategy

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.

Based on its investment objective, the Trustee has allocated some 50% of the Plan's assets 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 the banks interest for the 'loan'. This is a commonly used risk-managed investment practice for pension schemes such as the Plan.

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

INVESTMENT REVIEW

Summary of investments at 31 December 2019

A summary of the Plan's investments as at 31 December 2019, together with the strategic benchmark asset allocation, is shown below.

Manager	Benchmark Allocation	As at 31 December 2019	
		£m	%
Insight LDI solution fund	50.0%	160.2	45.3%
Insight Liquidity fund	-	5.0	1.4%
M&G Syndicated senior secured commercial loans fund	25.0%	94.5	26.7%
M&G Asset-backed securities fund	25.0%	94.1	26.6%
Total*	100.0%	353.8	100.0%

*As at 31 December 2019, the Plan had current liabilities of £0.3 million and current assets of £3.1 million, giving total net assets of £356.6 million.

Self-investment

The investment managers are permitted to invest in securities issued by the Company, Diageo plc, to the extent that the security falls within their investment mandate, up to a maximum of 5% of their portfolio. At 31 December 2019, as in 2018, there were no holdings of shares in Diageo plc within the Plan's investment portfolios.

Environmental, Social and Governance Policy

The Trustee reviews Responsible Investment considerations, seen as encompassing Environmental, Social and Governance (ESG) factors, including climate change and stewardship. The Trustee has developed a Responsible Investment Policy, setting out its approach and process, and the Statement of Investment Principles now incorporates ESG as part of investment strategy and risk management. The SIP can be found on the pension's website at <https://www.hartlinkonline.co.uk/diageo> and selecting Scheme Information and then the Diageo Lifestyle Plan. Alternatively, you can request a copy from the Administrator.

Overall investment performance

The investment return achieved by the Plan, and its constituent portfolios, is measured by the custodian, Northern Trust Global Services Limited. The total annualised returns achieved by the Plan and the benchmark returns were:

Period	1 year to 31 December 2019	3 years to 31 December 2019 (p.a)
Plan return	12.2	5.3
Benchmark	10.3	5.0

Over the year to 31 December 2019, the return on the liability matching funds was close to 20%, which matched the corresponding increase in the assessed value of the Plan's liabilities. The returns on the M&G loans fund and asset-backed securities funds were 5.9% and 3.7% respectively and these returns contributed to the overall improvement in the funding level of the Plan during the year.

FUNDING UPDATE

Annual summary funding statement

The Trustee Directors are pleased to present their annual Summary Funding Statement as at 1 January 2020.

What is the purpose of this statement?

Its purpose is to explain the latest funding position of the Plan and how this has changed since the last actuarial valuation as at 1 January 2019.

How is the Plan funded?

Both the Company and members who are still working for the Company pay contributions into the Plan. The level of members' contributions is set out in the Plan rules and is currently 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 Company's contributions meet the balance of the cost required to pay the benefits. The Plan is set up as one fund which the Trustee uses to provide all members' benefits. This fund is held separately from the assets of the Company.

How much does the Company currently pay into the Plan?

The Company pays regular monthly contributions to meet the cost of benefits building up in the future (for members still working for the Company). For the year ended 31 December 2019, Company contributions were paid at the agreed rate of 24% of Pensionable Pay.

What was the Plan's ongoing funding position at the most recent interim actuarial valuation?

The results of the interim actuarial review at 1 January 2020 are shown below. This review is based on funding assumptions derived from the same methodology as used for the 2019 valuation, but updated to reflect market conditions at 1 January 2020.

The results show that the funding level has improved from a deficit of £1.2 million at 1 January 2019 to a surplus of £8.4 million at 1 January 2020.

Over 2019 the assessed value of the Plan's liabilities increased significantly as interest rates fell. This was more than offset by the significant increase in the value of the Plan's total assets, leading to the improvement in the overall funding position.

Value of the Plan's assets	£356.6 m
Amount needed to provide benefits	£348.2 m
Surplus	£ 8.4 m
Funding level	102%

FUNDING UPDATE

What is the funding level on the full solvency position?

The Plan will pay benefits in full as long as it continues. The Trustee is, however, required to advise members of the financial position of the Plan in the unlikely event that the Plan is discontinued and the Company is unable to pay further contributions. If the Plan had been wound up on 1 January 2020, the actuary estimated that the shortfall on this full solvency basis would have been £95.5 million, representing a funding level of 79%.

The full solvency position assumes that benefits would be secured by buying insurance policies. The cost of securing benefits in this way is significantly more expensive than funding for them in the Plan (and therefore the funding level on this basis is significantly lower than on the ongoing basis).

It is important to note that the Pensions Regulator requires trustees to report the full solvency position but this does not mean the Company intends to wind up the Plan. Furthermore, the law now stipulates that the sponsoring employer (in this case Diageo plc) cannot wind up a pension scheme unless it is fully funded on a solvency basis. The only circumstance under which a scheme might be wound up without members receiving their full benefits is when the sponsoring employer becomes insolvent and is unable to give the scheme any further support. However, in such a circumstance, the Pension Protection Fund (PPF) might step in and administer the scheme albeit with some curtailment of benefits (which can be significant above certain threshold levels). Further information about the PPF can be obtained on its website at www.pensionprotectionfund.org.uk.

The funding arrangements for the Plan assume that the Company will continue to meet all its obligations.

Other matters

The Pensions Regulator requires that we tell you if there have been any payments from the Plan to the Company in the last twelve months. We can confirm that there have been no such payments.

The Pensions Regulator's powers also allow it to intervene in the running of pension schemes if it believes this is in the members' best interests. For example, it can change the rate at which benefits build up in the future, give directions in relation to funding targets or impose contribution rates on pension schemes. It has not needed to use its powers in this way for the Plan.

Where can I get further information?

Further details of the Plan, including copies of the following documents, can be found on the pensions website at <https://www.hartlinkonline.co.uk/diageo> and selecting Scheme Information and then the Diageo Lifestyle Plan. Alternatively, they can be requested from the Administrator, for whom contact details can be found on page 14.

- › Annual Report and Accounts for the year ended 31 December 2019, which includes the full accounts and membership figures, statements from the Actuary and Auditor, an update on the Plan's investment performance and details of the Trustee and advisers. Much of this information is summarised in this Plan Review;
- › Annual Actuarial Report - shows the funding position of the Plan as at 1 January 2020;
- › Statement of Funding Principles - explains the approach adopted for funding the Plan;
- › Schedule of Contributions - shows how much money is being paid into the Plan;
- › Statement of Investment Principles - explains how the Trustee invests the Plan's assets.

PLAN AND OTHER NEWS

Ensure your dependants are looked after when you die

As part of your Plan membership, a lump sum benefit becomes payable if you die before retiring.

If you die while working for the Company as an active member, a lump sum will be payable calculated as the higher of:

1. the amount of your Retirement Account immediately before your date of death; and
2. 6 times your Pensionable Pay* over the 12 months ending on the previous 31 December before your date of death.

* Pensionable Pay is your basic salary plus any regular emoluments specifically stated to be pensionable in your contract of employment or as otherwise determined by the Company. If you participate in Salary Exchange for Pensions, Pensionable Pay is your pay before the deduction of the contributions (salary exchange adjustment).

If you die as a deferred member, a lump sum equal to the value of your Retirement Account at the date of death, including increases between the date you left Diageo and your death will be paid.

When this happens the Trustee needs to consider all potential beneficiaries and make a decision on who should receive the death benefit. To ensure the Trustee considers your wishes, you should update the Expression of Wish section on the Hartlink Online Portal (HOP). If you are not yet registered for HOP a copy of the form is available from the Administrator or on the Plan website at www.hartlinkonline.co.uk/diageo and selecting Scheme Information and then the Diageo Lifestyle Plan.

The form is not legally binding (if it were, then any lump sum benefits would be included in your estate and would be taxable) but the Trustee will consider your wishes when it decides who should get the money.

You may update your wishes at any time – and should review it periodically. If you have divorced, married or had children, or if there have been any other changes in your circumstances, you may wish to fill in a new form to let the Trustee know of any changes to your wishes.

Don't forget about any other pension schemes in which you retain benefits, such as those from a previous employment. Make sure that you advise them of any changes in your personal circumstances.

Finally, make sure that your family knows where to find your pension paperwork as they will need it in the event that you are no longer around.

Electronic communications

Going forward, all Plan communications will be issued via HOP so we would encourage any member who has not already done so, to register for HOP. If you need details on how to register for HOP please contact the Administrator who will provide details and a guide.

If you wish to opt out of electronic communications and continue to receive communications in the post (communications will still be available on HOP), please email the Administrator at diageopensions@capita.co.uk and in the header of your email include "I wish to opt out of electronic communications". Alternatively, you can write to the Administrator at the address on page 14. When contacting the Administrator, please provide your full name, address and telephone number, date of birth and your National Insurance number.

PLAN AND OTHER NEWS

Pension Scams – be extra vigilant!

Unfortunately, there has been a recent surge in scams designed to prey on people's fears around Covid-19 and so we ask you to be extra vigilant at this time. Scammers have been trying to persuade people to transfer their pension, prompted by the volatility of the financial markets and the economic downturn. We urge any members looking to transfer their pension to exercise extreme caution and visit Scam Smart (<https://www.fca.org.uk/scamsmart>) which has specific guidance relating to COVID-19 including the following four-step guide to help you spot the signs and protect yourself from a scam:

1 – Reject unexpected offers

If you're contacted out of the blue about your pension, chances are it's high risk or a scam. Be wary of free pension review offers. A free offer out of the blue from a company you have not dealt with before is probably a scam.

2 – Check who you are dealing with

Check the Financial Services Register (www.register.fca.org.uk) to make sure that anyone offering you advice or other financial services is FCA-authorized. Beware of fraudsters pretending to be from a firm authorised by the FCA, as it could be what we call a 'clone firm'. Use the contact details provided on the FCA Register, not the details they give you.

3 – Do not be rushed or pressured into any decision about your pension

Take your time to make all the checks you need – even if this means turning down an 'amazing deal'. Be wary of promised returns that sound too good to be true and don't be rushed or pressured into making a decision.

4 – Get impartial information and advice

The Pensions Advisory Service (www.thepensionsadvisoryservice.org.uk) – provides free independent and impartial information and guidance.

- ▶ Pension Wise (www.pensionwise.gov.uk) – if you're over 50 and have a defined contribution (DC) pension, Pension Wise offers pre-booked appointments to talk through your retirement options.
- ▶ Financial advisers – It's important you make the best decision for your own personal circumstances, so you should seriously consider using the services of a financial adviser. If you do opt for an adviser, be sure to use one that is regulated by the FCA and never take investment advice from the company that contacted you or an adviser they suggest, as this may be part of the scam.

Be ScamSmart with your pension. For more information visit the websites of the Financial Conduct Authority (<https://www.fca.org.uk/scamsmart/how-avoid-pension-scams>) and The Pensions Regulator (<https://www.thepensionsregulator.gov.uk/pension-scams>)

If you suspect a scam:

- ▶ Report it to the Financial Conduct Authority (FCA) by contacting their Consumer Helpline on 0800 111 6768 or using the reporting form at www.fca.org.uk
- ▶ Report it to Action Fraud on 0300 123 2040 or at www.actionfraud.police.uk
- ▶ If you've already signed something you're now unsure about, contact your pension provider immediately. They may be able to stop a transfer that hasn't taken place yet. Then contact The Pensions Advisory Service at <https://www.thepensionsadvisoryservice.org.uk> or by calling 0800 011 3797.

PLAN AND OTHER NEWS

Government's 2020 Budget

A significant focus of the 2020 Budget was its short term action aimed at bringing security to an economy facing unsettled times due to the Coronavirus disease outbreak. However, the Chancellor, also announced the following in relation to pensions:

- › **Lifetime Allowance:** This will increase in line with the Consumer Prices Index (CPI) from £1,055,000 to £1,073,100 from 6 April 2020. The Lifetime Allowance is the total amount of savings that benefit from tax relief that an individual can have across all UK pension schemes in their lifetime. Savings above the Lifetime Allowance will be subject to additional tax (the Lifetime Allowance Charge).
- › **Tapered annual allowance:** The Annual Allowance (AA) is the maximum amount of pension savings (including employer's contributions) you can make each year to UK registered pension schemes that benefit from tax relief.

Tapered AA is a lower annual allowance for individuals with higher incomes and the AA reduces (known as 'tapering') down from £40,000. Tapering previously only applied if you had both a "threshold income" over £110,000 and an "adjusted income" of over £150,000. From 2020/21, the "threshold income" will increase to £200,000 and the "adjusted income" will increase to £240,000. **Individuals with threshold income below this level will not be affected by the taper.** The effect of the taper is to reduce your annual allowance as your salary increases. The annual allowance is reduced by £1 for every £2 of adjusted income above £240,000, down to a minimum annual allowance of £4,000 (previously £10,000). This reduction will only affect individuals whose earnings are over £312,000.












Additional Voluntary Contributions (applicable to active members)

Additional Voluntary Contributions (AVCs) are a simple and effective way to provide benefits in addition to your benefits from the Plan. As the name suggests, AVCs are contributions that you choose to pay voluntarily on top of any contributions you are required to pay to the Plan. By paying AVCs you will build up a fund of money in the Diageo Pension Plan (DPP) administered by Scottish Widows which is then used to provide additional benefits when you retire. You have the option on how to invest your money with Scottish Widows. You can elect to start paying AVCs via the My Diageo Benefits Hub.

THE TRUSTEE

The Trustee of the Plan is Diageo Pension Trust Limited. There are currently 12 Trustee Directors of the Trustee Company who have the responsibility for ensuring that the Plan is run in accordance with its Trust Deed and Rules.

At present, half of the Directors have been elected by employee or pensioner members. The Chairman is a professional trustee, as defined by the Pensions Regulator. All Directors have regular training in connection with their role and are supported by professional advisers who are independent of the Company.

Employer nominated		Trustee nominated									
	Charles Coase, Chairman		Sharon Fennessy ²		David Heginbottom ²		Catherine James ^{2,3}		Mena Hatchman ^{1,3} <i>Resigned 26 November 2019</i>		
									Eddie McShane <i>Appointed 26 November 2019</i>		
Member nominated											
	John Cant ¹		Jim Donaldson		Carolyn Isaacs ^{1,2}		Andrew Lynn ^{1,3}		Liz Paxton ³		Ian Shaw ^{2,3}
1 Audit Committee member			2 Investment Committee member			3 Discretions Committee member					

The main committees of the Trustee Board are the Audit, Investment and Discretions Committees, the members of which are identified above. The roles of the Audit and Discretions Committees are summarised below. Further information on the work of the Investment Committee is provided on page 5.

THE TRUSTEE

Audit Committee

The Audit Committee oversees the Plan's governance, the services and internal controls of the Plan's Administrator and other advisors, and the integrity of the financial statements, including specific areas of judgement and risk. The Audit Committee makes recommendations to the Trustee as appropriate.

Discretions Committee

The Discretions Committee is responsible for exercising, on behalf of the Trustee, certain discretions under the rules of the Plan.

Secretary	
Aedin Kenealy	
Advisers to the Trustee	
Actuary	James Miller – Aon
Administrator	Capita Employee Solutions
Auditor	KPMG LLP
Bank	Lloyds Bank plc
Custodian	Northern Trust Global Services Limited
Investment Adviser	Hymans Robertson LLP
Solicitor	Linklaters LLP
Life Insurance	Canada Life Group Insurance

WHO TO CONTACT

If you would like further information about your benefits in the Plan, you can contact the Administrator as outlined below. However, as previously mentioned our preferred method of contact over the coming months is by email at **diageopensions@capita.com**. If you do need to speak to someone urgently, please call 0333 222 0086.

Website:

<https://www.hartlinkonline.co.uk/diageo>

Writing:

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

Please note that whilst the Diageo Lifestyle Plan is administered from Capita's office in Edinburgh, all post is directed via Capita's office in Darlington.

When contacting the Administrator, it is helpful if you provide your full name, address and telephone number, date of birth and your National Insurance number.

If you have a complaint, please raise it with the Diageo Pension Team Manager, at the above address. If you are dissatisfied with the decision of the Diageo Pension Team Manager, please ask for details of the Trustee's Internal Disputes Resolution Procedure.

Please note that any queries related to your employment with Diageo should be referred to your line manager or local Human Resources Manager.

Plan website

The Administrator's online portal, Hartlink Online, allows real-time access to your pension record, and enables you to:

- › view your current Retirement Account
- › access other information regarding leaving service options and death benefits
- › view your annual benefit statements within "My Mailbox"
- › obtain retirement illustrations and transfer values
- › access information regarding your benefits in relation to the Annual Allowance
- › update your nomination details using the online Expression of Wish form
- › access a wide range of communication materials.

Feedback that we have received from members who have used the website is very positive. If you have not done so already, do please visit the website at **<https://www.hartlinkonline.co.uk/diageo>**. Instructions on how to register are provided when you click the Register button. You can also receive a reminder of your Login Name by following the link on the homepage. If you need help with the website, please contact the Administrator.

WHO TO CONTACT

Keep in touch

It is important that you notify the Administrator of any change of address, even after you leave Diageo, so that we can ensure that you receive your benefits when they become due. You can do this via the Plan website or by writing to the Administrator (as above). If you are still employed by Diageo, you need to update your address in Workday.

It is also helpful if you are able to provide a personal email address – you can provide this via the portal.

Holding personal information

In providing services to members, the Trustee, the Company and the Plan's professional advisers and administrators require access to personal data about members and their dependants. Any information you give us is handled in accordance with the Plan's Privacy Notice and in accordance with Data Protection Legislation (meaning, as applicable, the General Data Protection Regulation 2016/679, all applicable regulations, domestic legislation and any successor legislation relating to the protection of individuals with regards to the processing of personal data to which the Trustee is subject). The Privacy Notice is available on the pension website at <https://www.hartlinkonline.co.uk/diageo>. If you have further questions regarding the processing of your personal information, please contact the Administrator.

