Triodos Investment Management

DIAGEO PLC

MEETING DATE	Wed, 20 Sep 2017 14:30 pm	TYPE	AGM	ISSUE DATE	Thu, 07 Sep 2017
MEETING LOCATION	The Mermaid Conference & Events Centre, Puddle Dock, Blackfriars, London EC4V 3DB				
CURRENT INDICES	FTSE 100, FTSE EuroFirst				
SECTOR	Distillers & Vintners				

	PROPOSALS	ADVICE
1	**Receive the Annual Report** Strategic report meets guidelines. Adequate employment and environmental policies are in place and relevant, up-to-date, quantified, environmental reporting is disclosed. The Company also disclosed the proportion of women on the Board, in Executive Management positions and within the whole organisation. Triodos supports this resolution.	**For**
2	**Approve the Remuneration Report** Overall disclosure is in line with best practice. The increase in CEO salary (+2%) is in line with the average salary increase for US and UK workforce (+4%). The average change in CEO pay over the last five years is considered in line with the Company's TSR performance over the same period. The variable pay of the CEO for the year under review is not deemed excessive at 136.6% of his salary. However, the current maximum award opportunity under the DLTIP for the CEO, based on awards made during the year, is £9,155,906 (USD 11,628,000), which represent 750% of his salary and is considered highly excessive. Also, the ratio between the CEO pay and the average employee pay has been estimated and is found inappropriate at 68:1. Finally, the CEO's salary is considered to be the highest among its peer group. Rating: AC. Triodos abstains this resolution.	**Abstain**
3	**Approve Remuneration Policy** The proposed changes to the remuneration policy are considered positive (see supporting information below) but insufficient to support the proposal. The reduction in the maximum cap for pension contributions is welcomed but not sufficient. It is considered that the CEO should have reduced further its pensions entitlements (down to 30% of salary from 40%) to align the policy level (20% of salary). More importantly there are major concerns over the excessiveness of the variable pay for the Executive Directors as the CEO's maximum potential award under all the incentive schemes is 1075% of his salary. There is no deferral requirement for the annual bonus which is contrary to best practice. Also, the Company can award both options and performance shares under the Diageo Long Term Incentive Plan (DLTIP) which is not supported as it adds unnecessary complexity to the remuneration structure. The three-year performance period for the DLTIP is not considered properly long-term, even though the two year holding period is welcomed. The DLTIP performance conditions do not operate interdependently and are not linked to any non-financial metric. The payment of dividend equivalents on vested shares is also not supported. Finally, the discretion given to the Committee to dis-apply time pro-rating on outstanding DLTIP awards for good leavers or in case of termination upon a change of control is considered inappropriate. Rating: AEB. Triodos opposes this resolution.	**Oppose**
4	**Approve the Dividend** A final dividend of 38.5 pence per share is proposed, which brings the total dividend for the year under review to 62.2 pence per share. This payment is covered by earnings.	**For**
5	**To re-elect PB Bruzelius** Independent Non-Executive Director.	**For**

6	**To re-elect Lord Davies** Senior Independent Director. Considered independent.	**For**
7	**To re-elect J Ferrán** Chairman. Independent upon appointment.	**For**
8	**To re-elect Ho KwonPing** Independent Non-Executive Director.	**For**
9	**To re-elect BD Holden** Independent Non-Executive Director.	**For**
10	**To re-elect NS Mendelsohn** Independent Non-Executive Director.	**For**
11	**To re-elect IM Menezes** Chief Executive Officer. 12 months rolling contract.	**For**
12	**To re-elect KA Mikells** Chief Financial Officer. 12 months rolling contract.	**For**
13	**To re-elect AJH Stewart** Independent Non-Executive Director.	**For**
14	**To re-appoint the Auditors: PricewaterhouseCoopers LLP** PwC proposed. Non-audit fees represented 24.56% of audit fees during the year under review and 20.8% on a two-year aggregate basis. This level of non-audit fees does not raise serious concerns about the independence of the statutory auditor.	**For**
15	**Allow the Board to Determine the Auditor's Remuneration** Standard proposal.	**For**
16	**Issue Shares with Pre-emption Rights** The authority is limited to one third of the Company's issued share capital and expires at the next AGM. Within acceptable limits.	**For**
17*	**Issue Shares for Cash** Authority is limited to 5% of the Company's issued share capital and will expire at the next AGM. Within acceptable limits.	**For**
18*	**Authorise Share Repurchase** The authority is limited to 10% of the Company's issued share capital and will expire at the next AGM. This resolution will not be supported unless the Board has set forth a clear, cogent and compelling case demonstrating how the authority would benefit long-term shareholders. As no clear justification was provided by the Board, Triodos opposes this resolution.	**Oppose**
19	**Approve Political Donations** Although the aggregate limit sought (£100,000) is within acceptable limits, the company has made donations in North America which are deemed to be political during the year. The Group made political donations of £400,000 to federal and state candidates and committees in North America. This raises concerns about the potential political donation which could be made by the Company under this authority. Triodos considers political donations as an inappropriate use of shareholder funds.	**Oppose**
20	**Approve the Diageo plc 2017 Share Value Plan** Shareholders are being asked to approve the Diageo plc 2017 Share Value Plan. The Plan provides a tax efficient method of saving for employees in the USA combined with an option to buy American Depositary Shares ('ADS') representing Ordinary Shares in the company. The basis of entitlement of each participant shall be the same. Once participants have elected the total annual amount they wish to save, funds are collected on a monthly basis through payroll for one year, following the end of which the trustee of the Plan acquires ADSs on behalf of the participants. Employees of Diageo North America Inc. and other subsidiaries of Diageo in the USA as selected by the Board from time to time will be eligible to participate in the Plan. It is proposed that the first grant of options will be made in 2017. The current limit under the Plan is US$25,000 per annum, determined at the time of grant. The proposed limit is considered acceptable. As the proposed plan is open to all US employees on an equal basis and has a strong participation rate, a vote in favour is recommended.	**For**

SUPPORTING INFORMATION FOR RESOLUTIONS

Proposal 3 - Approve Remuneration Policy

The Company is proposing minor changes to the remuneration policy at the 2017 AGM:
- Reduction of maximum company pension contribution from 30% to 20% of salary for new hires; and
- increase to the Chief Executive’s shareholding requirement from 300% to 500% of salary, and for the Chief Financial Officer from 250% to 400% of salary, with a restriction on selling shares of 50% of the executive’s vested long-term incentive awards until the shareholding requirement is met.

Proposal 18 - Authorise Share Repurchase

The Board has approved a share buyback programme to return up to £1,500,000,000 to shareholders in the year to 30 June 2018. Share repurchase is not considered as an acceptable way of returning capital to shareholders.

Proposal 20 - Approve the Diageo plc 2017 Share Value Plan

The Plan replaces the current plan which expires on 16 October 2017 but without substantive changes to the terms or application of the existing plan. No options may be granted more than ten years after the Plan is approved by shareholders.
The subscription price of ADSs purchased on exercise of options under the Plan will be not less than 85% of the closing price for such ADSs as reported on the New York Stock Exchange on the dealing day immediately before the date of grant of options.

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