

SEC INVESTOR ADVISORY COMMITTEE MEETING

September 13, 2018 9:30 – 11:45 a.m.

Opening Remarks

Deborah P. Majoras, Chief Legal Officer & Secretary, The Procter & Gamble Company

Many thanks to the Committee for inviting me to participate, and to my fellow participants for sharing their thoughts, including Brian Schorr, Triant's GC, who suggested I participate.

For shareholders to effectively exercise their rights to vote on certain corporate matters, including the annual election of directors, we need a process that ensures simplicity, transparency, and accuracy. We are here because most agree that the systems we have are falling short.

In most years and in most elections, when many directors are elected with 90+% of the vote, systemic deficiencies don't necessarily surface. But in a close election, the issues come into sharper focus and remind us that it's time to reevaluate, update, and improve.

In its 180-year history, P&G (like most companies) had never faced a proxy contest – until last summer. Sometimes it takes a unique or at least unusual situation to highlight complexities and problems, and here was our situation: P&G has more than 2 ½ billion outstanding shares, which are held by about 3 million shareholders. Of those, about 40% are retail shareholders, double the size of most companies. This retail community includes employees and retirees, who hold about 10 to 15% of our shares through stock plans or personal accounts. We also have a sizeable number of international shareholders, with about 14% of our shares held by shareholders outside the U.S. About half of our 3 million shareholders hold less than 100 shares.

Of course, the majority of our shares are held by institutional investors, and while we also are concerned about their proxy voting issues, I will focus these remarks on the retail shareholders, given that others are covering the institutional base.

Communication with shareholders is essential to their making informed choices, and yet it is challenging. In a typical year, we mail fewer than 200,000 hard copies of our full proxy materials. For the rest, we use either notice and access or electronic delivery; about 800,000 of our shareholders receive their materials electronically. In a contested election, however, Broadridge, does not permit either side to distribute materials electronically. Consequently, whenever we wanted to communicate with shareholders, we had to mail them hard copies, even if they preferred electronic delivery. Proxy materials mailed internationally can take weeks to arrive, which may mean that they arrive after the meeting; certainly we could not send multiple communications with any hope that they would arrive before they were moot. In a world where people's lives are run through their mobile devices, companies must have user-friendly, electronic ways to connect with shareholders and invite engagement, especially in a proxy contest.

Communication is further hindered because the SEC's OBO/NOBO rules prevent companies from having access to the names of most of our investors. Shareholders on the OBO list hold more than 60% of P&G's outstanding shares, and yet we have no way to communicate with them directly. The required paper mailings are filtered through their brokers, with no real way for issuers to confirm whether those mailings were handled properly. While consumer privacy is important and should be respected, the structure of the OBO/NOBO rules should be reviewed.

Of course, there is also the fundamental challenge of engaging retail shareholders who may not understand the importance of voting. With retail turnout typically around 25%, we should examine whether we can do more to convince them that their votes matter. The experts say that the way to

increase retail turnout is to make multiple contacts, which, during a proxy contest, means multiple paper mailings. In the P&G contest, many retail shareholders received a dozen hard copy packets of information collectively from P&G and Trian, and that number multiplied for those with multiple accounts. This did increase our retail voter participation to 50%. But it also, not surprisingly, led to frustration and complaints. Many were confused, others found it environmentally unfriendly, and many were just plain annoyed at having so much paper.

If we want retail shareholders to vote, we must give them a convenient and user-friendly method by which to vote. Online voting works fairly well, but only if the shareholder has the right control number to log in. While control numbers are included in the mailings, shareholders often misplace or accidentally discard them, and replacing them is not easy. For beneficial owners, Broadridge generates and keeps these numbers, and is typically unwilling to provide replacement control numbers by email or phone. Rather, the beneficial owner must go back to the DTC Participant, which then contacts the voting intermediary, which then mails the number to the beneficial in hard copy. Requiring a separate control number rather than utilizing existing personal data is so cumbersome that many shareholders simply give up. And for a shareholder outside the U.S., waiting for a control number by mail often means not receiving one in time to vote, thus depriving some of their voting rights. In an age when many consumers do everything online, from banking to purchasing a car, we must find a more efficient yet secure way for shareholders to vote their shares.

For those shareholders who vote by proxy card, the card has multiple opportunities to be disqualified, particularly when names or titles are slightly mismatched or shares are held in trust accounts. We have many examples of errors made and proxies disqualified.

For beneficial owners, it is even uncertain whether their votes will actually be executed, because those votes must be filtered through brokers or other custodians, and there is much room for error.

Over-voting and under-voting are common. For example, a shareholder typically does not know if a broker has loaned out their shares such that they are legally unable to vote those loaned shares.

Without visibility into the custodian's voting process and a way to track their votes, beneficial owners do not know if their votes have been recorded.

Finally, for the shareholders' will to be executed, we need to have an accurate vote count. Precision is critical, especially when the vote is close. Yet voting inspectors still rely on highly manual processes and have to make subjective judgments. For example, the inspectors must determine the last card voted, as it is the only one that counts – and in a proxy contest, voters often change their minds, or they vote every card they receive to ensure their votes will be counted, significantly multiplying the number of cards. With tens of thousands of cards to be sorted and tabulated, errors are inevitable – we know from experience that a group of rubber-banded ballots might be overlooked or some ballots may be stuck together and not counted. And when you combine the issues caused by physical proxy cards with the many broker voting issues that exist, guaranteeing a timely and fully accurate vote count is virtually impossible.

Early in this painstaking tabulation process, the inspector is required to issue a preliminary report. That report – by definition, as it is “preliminary” -- will have errors; it will not be the final vote count. And yet, SEC rules require issuers to file an 8-K and publish this preliminary report. In a close election, this report can create needless and even harmful swirl. In our case, many shareholders did not even realize that the report was not final, because many media stories failed to clearly make that distinction. While shareholders are absolutely entitled to information, that information should be accurate, and the publication of a draft report in a contested election is not helpful.

At P&G, we do believe it's time to consider proxy plumbing reform, and we appreciate this Committee's and the SEC's focus on it. Shareholders should have easy access to information, a simple and secure voting method, and a tabulation method that ensures accuracy. P&G stands ready to help.