

Voting Bulletin: The Procter & Gamble Company

As part of our fiduciary duty, BlackRock’s Investment Stewardship team (BIS) advocates for sound corporate governance and business practices that are aligned with long-term sustainable financial performance. This objective underpins all our engagements and votes at company meetings.

We engage company leadership on key topics emphasizing governance practices including management of environmental and social factors that potentially have material economic, operational or reputational ramifications for the company.

We determine our [engagement priorities](#) based on our observation of market developments and emerging governance themes and evolve them year over year as necessary. The BIS team’s key engagement priorities include:

1. Board quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism
5. Human capital management

We are committed to enhancing the transparency of our stewardship practices. Where we believe it will help to understand our voting decisions on key votes at shareholder meetings, we will publish a Voting Bulletin explaining the rationale for how we have voted on select resolutions, and (where relevant) provide information around our engagement with the issuer.

Company	The Procter & Gamble Company
Market	United States
Meeting Date	13 th October 2020
Key Resolutions ¹	Item 5: Report on Efforts to Eliminate Deforestation Item 6: Annual Report on Diversity
Board Recommendation	The company recommends shareholders vote AGAINST the two shareholder proposals.
BlackRock Vote	BIS voted FOR the shareholder proposal on deforestation (Item 5) and voted AGAINST the shareholder proposal requesting the publication of a report assessing the company’s diversity and inclusion efforts (Items 6).

¹ Meeting information can be accessed at: <https://news.pg.com/news-releases/news-details/2020/PG-to-Hold-the-Procter--Gamble-2020-Virtual-Annual-Meeting-of-Shareholders-October-13/default.aspx>

Overview

The Procter & Gamble Company (P&G) is one of the largest global branded consumer packaged goods companies. It operates in the following segments: Beauty; Grooming; Health Care; Fabric & Home Care; and Baby, Feminine & Family Care.

BIS regularly reviews P&G's governance structure and risk profile. BIS has held multiple engagements with the company's board and management in recent years, in which we have discussed a range of material issues that, in our view, drive long-term shareholder value.

During our most recent engagement with P&G, we discussed the company's response during the COVID-19 pandemic, the shareholder proposals on the company's proxy statement, and human capital management, as well as recent updates to the company's board structure.

Rationale for BlackRock's vote

Item 5: Shareholder Proposal – Report on Efforts to Eliminate Deforestation (FOR)

The proposal requests a report assessing if and how P&G could increase the scale, pace, and rigor of its efforts to eliminate deforestation and the degradation of intact forests in its supply chains. The proposal places special attention on the company's use of palm oil and forest pulp.

While BlackRock recognizes the company's efforts to date towards enhancing their sustainability and monitoring disclosure reports, we determined that there is room for P&G to improve the frequency and depth of disclosure.

As a long-term investor, the reputational and operational risks faced by companies being implicated in deforestation allegations is concerning to us. We view improper land use and management that contributes to deforestation as an inherent environmental, social, governance (ESG) risk for companies in certain sectors in which we invest on behalf of our clients. BIS believes that companies with material E&S dependencies and impacts need to demonstrate high standards of operating practices. We expect companies to disclose, preferably on an annual cycle, how the material E&S risks and opportunities in their business model might affect their long-term strategy, capital expenditure, operations, and thus financial performance. We further expect them to explain how relevant risks are assessed, mitigated and managed. In line with our [approach to engagement on climate risk](#), BIS looks to the framework developed by the Task Force on Climate-related Financial Disclosures (TCFD) and the standards put forward by the Sustainability Accounting Standards Board (SASB) as the benchmarks for a company to disclose its approach to climate-related risks, including deforestation prevention and the physical risks related to land-use practices.

BlackRock determined that incorporating detailed TCFD- and SASB-aligned metrics in its annual Citizenship Reports would be useful for investors, and other stakeholders, to understand how P&G is identifying, assessing, and managing climate-related risks and opportunities, in particular, potential material weaknesses in their palm oil supply chain management or the forestry management and harvesting practices of their local suppliers.

As detailed in P&G's Wood Pulp Procurement Policy,² P&G purchases wood pulp for tissue and absorbent hygiene products. P&G does track and report annually the amount of wood pulp it purchases from suppliers, which is 100% certified by a leading third-party certification system.³ However, in our view P&G could further

² P&G's Wood Pulp Procurement Policy is the overarching policy that groups all company efforts regarding Sustainable Forest Management, Forest Certification, Forest Conversion, and Efficient Use of Resources. See more at <https://us.pg.com/policies-and-practices/wood-pulp-procurement-policy/>

³ P&G requires that 100% of the sourced virgin wood pulp is certified by a leading third-party certification system, e.g. the Forest Stewardship Council (FSC), Sustainable Forestry Initiative (SFI), and Programme for the Endorsement of Forest Certification (PEFC).

improve its responsible forestry disclosures by reporting metrics and targets in alignment with the TCFD framework and SASB standards.

Currently, regarding forest pulp, the company recently announced a new goal to increase their use of Forest Stewardship Council (FSC)⁴ certified wood pulp from the current 43% to at least 75% across all Family Care brands by 2025,⁵ and they plan to report their progress on this goal annually. Additionally, P&G will invest a total of \$20 million by 2025 to accelerate research into non-wood fiber alternatives and FSC certified fast-growing fibers.

Regarding palm oil, P&G aimed to reach 100% Roundtable on Sustainable Palm Oil (RSPO) certification for both Palm Kernel Oil (PKO) and Palm Kernel Oil Derivatives (PKOD) used in P&G brands by the end of 2020. P&G reached 60% RSPO certification by FY 2019-20 (P&G's primary PKO supplier lacked RSPO certification in 2016) and now aims to achieve 100% RSPO certification by the end of 2022. While it is disappointing that the company missed its PKO/PKOD targets to date, we believe P&G is taking appropriate steps to achieve the renewed 2022 target.⁶

As part of P&G's Ambition 2030 plan,⁷ the company has committed to reach up to 10,000 small, independent farmers ("smallholders"), which are part of P&G's supply chain in Malaysia, to help them increase yields on their farms by 30% to 50%. This provides an opportunity to ensure sourcing practices used by farmers are consistent with P&G's procurement policies and expands P&G's access to certified PKO and PKOD.⁸

We believe that all of these issues are material and business relevant and we will monitor P&G's progress in these areas.

Item 6: Shareholder Proposal – Publish Annually a Report Assessing Diversity and Inclusion Efforts (AGAINST)

The shareholder proposal requests P&G to publish an annual report assessing the company's diversity and inclusion efforts.

We have long held the conviction that a company's approach to human capital management (HCM) is a critical factor in ensuring business continuity and success, as well-supported and engaged employees are more likely to help create sustainable long-term value. Our [approach](#) focuses on the board and management's effectiveness in overseeing how a company meets the expectations of its workforce. We are committed to advocating for more robust disclosures to better understand how companies are working deliberately to deliver an inclusive and diverse work environment. In January 2020, we asked companies to publish disclosures aligned with the SASB standards, which for many sectors includes disclosing the racial and ethnic profile of

⁴ P&G has a stated preference for the Forest Stewardship Council (FSC) certification, which many stakeholders consider the most robust certification standard. See <https://www.fsc.org/en>

⁵ P&G contends that consumers prefer virgin wood pulp rather than recycled fiber in their Family Care products; there are also concerns that using recycled fiber entails to a less efficient manufacturing process, generating more waste and increasing the use of energy and water versus virgin fiber. They have committed to use 100% recycled fiber in their fiber-based packaging by 2025. Their goal is to develop fibers that are consumer-preferred, sustainably sourced and produced at scale.

⁶ P&G's primary PKO supplier has committed to upholding the Fair Labor Association (FLA) standards to address labor issues and drive long-term improvements to manage working conditions in its own operations and those in its upstream supply chain. FLA conducts detailed reviews of their efforts, assess progress, recommends actions to increase the pace or rigor of their programs, and issues independent public progress reports.

⁷ See <https://us.pg.com/environmental-sustainability/>

⁸ Since April 2020, P&G has implemented a new supplier enterprise wide monitoring system, provided by Earthqualizer, that uses satellite imagery to proactively monitor forest coverage and detect inconsistencies with P&G's deforestation policies across its supply chain. This system is an additional step taken to help ensure consistent enforcement of their palm oil sourcing policies.

their U.S. workforce. During the 2019-20 proxy season, we conducted numerous engagements on diversity in the workplace and supported shareholder proposals that addressed the issue.

In September 2020, P&G updated its workforce demographic disclosure including gender and ethnic diversity by level.⁹ This disclosure addresses the shareholder proposal's request and enhances the company's diversity, equity, and inclusion (DEI) efforts regarding talent and development initiatives. Currently P&G's workforce includes 25% multicultural employees and 40% female employees. The company has stated their aspiration of 50/50 representation of women at all levels, all functions, and all geographies in the company. Similarly, they recently declared their aspiration to achieve 40% representation of multicultural employees in the U.S. workforce.

In addition to internal DEI efforts, for more than 40 years P&G's Supplier Diversity program¹⁰ has been increasing economic inclusion for women- and minority-owned businesses—including military veterans, people with disabilities, and LGBTQ owners. P&G is a founding member of the Executive Leadership Council's Game Changer initiative, focused on codifying best practices for developing African American Talent.

More broadly, P&G has led constructive dialogue promoting racial equity and understanding, largely by releasing several films publicly since 2017 about racial bias and racial inequality.¹¹ They also established the P&G "Take on Race" Fund, with an initial contribution of \$5 million.¹²

In our assessment, these longstanding, multi-pronged initiatives, along with robust disclosures, place P&G at the forefront of DEI efforts in the market. As a result, we determined that the requested report would be redundant and therefore did not support it.

⁹ See <https://us.pg.com/diversity-and-inclusion/>

¹⁰ See <https://www.pgsupplier.com/en-US/png-values/citizenship/supplier-diversity-page>

¹¹ See <https://us.pg.com/talkaboutbias/>

¹² See <https://us.pg.com/blogs/take-on-race/>