

CalPERS Proxy Voting Guidelines

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Introduction

The CalPERS Proxy Voting Guidelines are supported by the [CalPERS Governance & Sustainability Principles](#). We vote our proxies in a manner consistent with these principles and in the interests of our beneficiaries. These guidelines are intended to provide an overview of our general philosophy and approach to the most important and commonly presented proxy voting items. In general, we use a comprehensive approach when determining and evaluating proxy votes, taking into consideration issues such as investors' rights, board quality, compensation, corporate reporting, and regulatory effectiveness. The primary objective in exercising our ownership rights is to ensure that our portfolio companies are managed and governed to generate long-term sustainable investment returns consistent with our [Total Fund Investment Policy](#) and [Investment Beliefs](#). As part of our analysis, we may also engage corporate issuers and other relevant parties to obtain additional information, perspectives, and insights on certain proxy issues before making an informed voting decision.

We make all our proxy voting decisions independently and will apply discretion, when appropriate. We also publicly post our proxy votes on the [CalPERS website](#) in advance of each company's annual general meeting.

This document is organized into the following sections:

- Director Elections
- Contested Elections
- Compensation
- Capital Structure
- Auditor and Audit-related Issues
- Other Issues
- Shareholder Proposals

Director Elections

We believe that high-quality corporate boards should be comprised of mostly independent directors and be diverse with an appropriate balance of skills, expertise, and tenure. The following are common instances that typically will result in a “withhold” vote for a director:

1. Board Independence

We will withhold votes from directors who are not considered independent and serve on a board that is less than 50% independent.

2. Key Board Committee Independence

We will withhold votes from directors who are not considered independent and serve on key board committees. The key board committees are Nominating/Governance Committee, Audit Committee, and Compensation Committee.

3. Poor Attendance

We will withhold votes from directors who have poor attendance, i.e., directors who fail to attend at least 75% of the aggregate board and key board committee meetings on which the director served, absent an appropriate explanation for any extraordinary circumstances.

4. Overboarded

We will withhold votes from directors who serve on an excessive number of boards. We consider directors overboarded in the following instances:

- The director is a non-executive director who serves on more than four public boards.
- The director is an executive director who serves on more than two public boards. In such cases, we will not withhold from the directors at the company where the director holds the executive position.

5. Board Diversity

On a case-by-case basis, where our engagements are not successful, we will withhold votes from directors who are nominating/governance committee members, board chairs, or long-tenured directors (greater than 12 years on the board) on boards that lack diversity and do not make firm commitments to improving the board diversity in the near term.

6. Climate Risk Oversight

For the largest GHG emitters in our portfolio, we will withhold votes from relevant committee members (and/or board leadership) who serve on a board that demonstrated a lack of oversight related to climate-related risks. Consistent with our Climate Action 100+ engagements, we may consider elements of the Climate Action 100+ Benchmark to help inform our voting decisions.

7. Board Refreshment

We will withhold votes from directors who are nominating committee members on a board where more than one-third of the directors have a tenure of more than 12 years and less than one-third of the directors were appointed within the past six years.

8. Board Oversight

We will withhold votes from directors who serve on a board that demonstrated a lack of board oversight in its fiduciary duties and responsibilities.

9. Compensation-Related Concerns

- We will withhold votes from directors who are compensation committee members in the same year that we vote against the advisory vote on executive compensation, also generally known as a say-on-pay vote, or other compensation plans. An exception applies to compensation committee members who have served on the board for less than one year.
- We will withhold votes from directors who are compensation committee members whenever an advisory vote on executive compensation has not been put up for shareowner vote. An exception applies to compensation committee members who have served on the board for less than one year.

10. Audit-Related Concerns

- We will withhold votes from directors who are audit committee members and in situations where the company had audit-related issues such as a material financial restatement, internal control weaknesses, or a qualified audit opinion in the recent past. An exception applies to audit committee members who have served on the board for less than one year.
- We will withhold votes from directors who are audit committee members in situations where the company did not put the auditor up for ratification. An exception applies to audit committee members at companies listed in Japanese markets or audit committee members who have served on the board for less than one year.
- We will withhold votes from directors who are audit committee members in the same year that we vote against the auditor ratification proposal. An exception applies to audit committee members who have served on the board for less than one year.

11. Board Accountability

- We will withhold votes from incumbent directors on a board that amended or adopted a shareholder rights plan, also known as a poison pill, without shareholder approval.
- We will withhold votes from directors who are nominating committee members on a board that amended or adopted the company's bylaws, articles, or charter that would materially and adversely impact shareholder rights without shareholder approval.

12. Board Not Responsive to Shareowners

- We will withhold votes from directors who received less than majority support in the previous year.
- We will withhold votes from directors who are nominating committee members on a board that failed to remove directors who received less than majority support at the prior board election.
- We will withhold votes from directors who are nominating committee members on a board that failed to act on a shareholder proposal that received majority support in the prior year.

13. Multi-Class Share Structure and Unequal Voting Rights

- We will withhold votes from directors who are nominating committee members on a board with a multi-class share structure and unequal voting rights when the company does not provide a reasonable sunset of the multi-class share structure.

14. Human Capital Management (HCM) Oversight Failures

- We may withhold votes from director nominees who have demonstrated a lack of commitment and/or failed oversight surrounding HCM and other labor issues in-line with the CalPERS Labor Principles.

15. Artificial Intelligence (AI) Board Oversight

- We may withhold votes from director nominees where there is evidence of failed and/or insufficient oversight of AI-related risks.

Contested Elections

We vote contested elections on a case-by-case basis. In addition to considering the following factors, we may engage both the company's management and the dissidents to obtain additional information, perspectives, and insights before formulating a vote decision.

- Corporate governance. This includes a review of investor rights, board-related issues, and compensation issues.
- Long term company performance This includes an evaluation of the company's long-term financial and operational performance relative to its peer index.
- Strategy review. This includes an evaluation of the management and dissidents' strategic plan, the track record of management and dissidents, the board candidate's qualifications relative to the strategic plan, and capital allocation.

Compensation

We believe well-designed compensation programs can be a powerful and effective tool to incentivize executives and employees and appropriately align their interests with those of shareowners to enhance long-term shareowner value. We generally vote proposals related to compensation on a case-by-case basis after consideration of various factors. Our voting guidelines on compensation should be read in conjunction with [CalPERS' Executive Compensation Analysis Framework](#).

1. Advisory Vote on Executive Compensation (Say on Pay)

We generally support say-on-pay proposals that demonstrate the compensation plan is well-structured and shows an appropriate pay-for-performance alignment over a long-time horizon. We consider long-term to be at least five years, and preferably 10 years. We use both a quantitative and qualitative approach to review compensation plans.

a. Quantitative Review

Our quantitative review includes an assessment of the company's pay-for-performance alignment using our proprietary five-year realizable pay model (CalPERS P4P model). Our pay-for-performance analysis ensures that the quantum of executive compensation is reasonable on an absolute basis, as measured relative to the company's own historical performance over five years, and on a relative basis, as measured relative to its peers over a five-year period. We will consider an "against" vote for the say-on-pay proposal if we identify a misalignment in pay-for-performance in the compensation plan.

b. Qualitative Review

Our qualitative review includes an assessment of the design and structure of the compensation plan. We review qualitative pay features in aggregate before determining whether the compensation plan aligns with the interest of long-term shareholders. One or more plan features may result in a vote against the compensation plan. Examples of these pay features include, but are not limited to:

Plan Design

- Majority of total long-term incentive plan awards either vest or have a performance period of less than three years
- Stock options granted at (or below) market price
- Significant portion of long-term incentives settle in cash and not equity
- Performance metrics that do not effectively align with shareholder value creation
- Insufficient disclosure of short-term and long-term incentive performance goals
- Overly complex plan design

Pay Levels and Practices

- CEO target pay is set above peer group median
- Excessive one-off awards, guaranteed bonuses, or severance payouts without sufficient justification (e.g., retention awards or severance payouts to tenured executives)
- CEO pay increased year-over-year with negative 1-year TSR
- Upward discretion applied to incentive awards without sufficient justification
- Repriced stock options in last year without sufficient justification
- Low equity ownership for long-tenured CEO
- Excessively high CEO compensation relative to other Named Executive Officers (NEOs)
- Majority of annual equity grants are to NEOs
- CEO-to-median employee pay ratio is disproportionately high

Governance

- No or insufficient clawback policy
- No policy on hedging, pledging, collars, short sales, or other derivative equity awards
- Single-trigger, change-in-control equity benefits
- Excise tax gross-ups

2. Equity Plan

We vote on equity plan proposals on a case-by-case basis. We may vote against an equity plan proposal if the company has a significant pay-for-performance misalignment, as determined by the CalPERS P4P Scorecard. Also, we will review multiple quantitative tests that evaluate dilution, burn rate, and percentage of equity grants awarded to executives relative to peers. Additionally, we review for any other structural features, which may include evergreen provisions, single trigger equity change-in-control provisions, repricing or buyout provisions, and equity grants made at less than full value.

3. Director's Compensation Plan

We generally support director compensation proposals that do not excessively pay directors for serving on the board and do not include options or other performance-based awards.

4. Change-in-Control Payment

We vote these types of proposals on a case-by-case basis after review of the amount and terms of the change-in-control payments. We believe that any provisions providing for compensation following change-in-control events should be "double-triggered," that is, such provisions should stipulate that compensation is payable only: (a) after a control change takes place, and (b) if a covered executive's job is terminated or downgraded because of the control change.

Capital Structure

1. Mergers & Acquisitions

We vote merger and acquisition proposals on a case-by-case basis. Consideration is based on the review of the following: strategic and financial rationale for the transaction; valuation of the transaction; sale process; independence of board, or special committee, recommending the transaction; independence of financial advisor and financial opinion for the transaction; corporate governance changes; and tax and regulatory impacts.

2. Asset Purchases/Sales

We vote asset sale or purchase proposals on a case-by-case basis. We evaluate the following: transaction prices; fairness opinion; financial and strategic benefits; impact on the balance sheet and work capital; the negotiation history and process; potential conflicts of interest; other alternative for the business; and non-completion risk.

3. Authorization to Issue Shares

We vote these proposals on a case-by-case basis. We consider the rationale provided by the company for issuing the additional shares.

4. Share Repurchase

We generally support share repurchase proposals, provided that a reasonable rationale is given.

5. Reincorporation to a Different State

We vote these proposals on a case-by-case basis after reviewing the rationale and evaluating the changes to shareowner protections and the company's corporate governance.

6. Amend Bylaws or Article of Association

We vote these proposals on a case-by-case basis after reviewing the potential impact on shareholders' rights and value.

Auditor and Audit-Related Issues

1. Auditor Ratification

We generally ratify the auditors recommended by the company unless the non-audit related fees for services provided by the auditors are excessive and exceed 50-percent of the total audit fees paid.

2. Financial Statements

We generally support the routine voting item seeking shareholder approval of the company's financial statements unless there are appropriate reasons to vote otherwise.

Other Issues

1. Employee Stock Purchase Plan

We generally support proposals related to employee stock purchase plans.

2. Board Size

We support proposals seeking to set the board size or range for the board size.

3. Related Party Transactions

We vote these types of proposals on a case-by-case basis, with consideration given to transactions that are reviewed by independent committees and are completed at arm's length or independently, such that they are not beneficial to directors and/or insiders at the company or at shareowners' expense.

4. Meeting Adjournment

We generally vote against proposals to adjourn a meeting, except in instances where it is related to a merger or acquisition that we support.

5. Transact Other Business

We vote against proposals granting a company permission to transact other business as a voting item at the annual shareowner meeting.

6. Other Voting Issues

We use appropriate judgment and analysis on various miscellaneous issues on a case-by-case basis in a manner consistent with our Governance & Sustainability Principles. We will vote against ballot items without sufficient disclosure of information.

Shareholder Proposals

We consider shareholder proposals on a case-by-case basis in a manner consistent with our Governance & Sustainability Principles and after consideration of various factors, such as level of board oversight, overall disclosure level, and the risks related to the company's legal, financial, regulatory, reputation, and/or operations.

Governance Proposals

1. Proxy Access

We support proposals allowing shareowner access to the director nomination process and the company's proxy materials for long-term investors or a group of long-term investors who own in aggregate 3% of the company's voting stock for at least three years to nominate up to 25% of the board.

2. Majority Vote for Director Elections

We support proposals for the adoption of a majority voting standard for directors in uncontested elections.

3. Simple Majority Vote Requirements

We support proposals requiring a simple majority vote requirement for bylaw and charter amendments and all other matters that may materially impact shareholder rights and requiring shareowner approval. We vote against proposals requiring supermajority requirements, except in situations where they are intended to protect minority shareholders and where there are unequal voting rights.

4. Independent Chair

We generally support proposals requesting the separation of the CEO and chair roles. We believe that the board should be chaired by an independent director and that CEO and chair roles should only be combined in very limited circumstances.

5. Annual Elections

We support proposals for the declassification of the board to allow for directors to be elected annually.

6. One-Share/One-Vote

We support proposals requesting a one-share/one-vote.

7. Special Meetings

We support proposals requesting the right to call a special meeting.

8. Right to Act by Written Consent

We support proposals requesting the right to act by written consent.

9. Poison Pills

We support proposals seeking shareholder approval before amending or adopting a shareholder rights plan, also known as a poison pill.

10. Cumulative Voting

To be in compliance with California Government Code 6900, e we will always support proposals requesting cumulative voting for director elections.

11. Exclusive Forum

We vote against proposals seeking to establish exclusive forum provisions. This is because we oppose restrictions on shareowners to pursue derivative claims and participate in the selection of appropriate venue.

Environmental Proposals

1. Environmental and Sustainability

We generally support proposals seeking greater disclosure of a company's environmental practices. We also support proposals seeking greater disclosure of a company's environmental risks and liabilities as well as its opportunities and strengths..

2. Greenhouse Gas Emissions

We generally support greenhouse gas emission proposals, such as those requiring companies to disclose risk factors regarding existing or pending legislation that relates to climate change and assess whether such regulation will likely have any material effect on the company's financial condition or results, the impact of which is not limited to negative consequences but should include new opportunities as well.

3. Energy Efficiency

We generally support proposals requesting energy efficiency proposals. We consider the following: the current level of disclosure related to energy efficiency policies, initiatives, and performance measures; the company's level of participation in voluntary energy efficiency programs and initiatives; the company's compliance with applicable legislation and/or regulations regarding energy efficiency; and the company's energy efficiency policies and initiatives relative to industry peers.

4. Water Supply and Conservation

We generally support proposals related to water supply, such as those seeking disclosure of water supply dependency or preparation of a report pertaining to sustainable water supply for company operations.

Social Proposals

1. Diversity

We generally support diversity proposals requesting the company to provide additional information and disclosure at the board, management, and employee levels, and where its diversity lags those of its peers or the population.

2. Political Contributions and Expenditures

We generally support proposals surrounding disclosure of political contributions and expenditures, particularly in instances where there is no board oversight of such activities, and the company does not provide adequate disclosure of the amount, the trade groups or special interest organizations, and the rationale for the contributions or expenditures.

3. Equal Employment Opportunity

We support proposals requesting the adoption of best practice related to EEO activities.

4. Global Labor Standards

We support proposals requesting a company to issue reports on its corporate standards for doing business abroad and to adopt mechanisms for ensuring vendor compliance with these standards. The standards include policies to ensure that workers are paid sustainable living wages and children are not used as forced labor.

5. Community Impact Assessments

We vote these types of proposals on a case-by-case basis. A support vote may be warranted for proposals requesting a report on a company's policies in this area by evaluating the company's current disclosures, industry norms, and the potential impact and severity of risks associated with the company's operations.

6. Supply Chain Risk

We generally support proposals requesting disclosure of supply chain risks, such as those seeking more information to better understand risks to the company through its materials purchasing and labor practices. For example, allegations of sweatshop labor or child labor can harm sales and reputation, so knowledge of the company's policies for preventing these practices are highly relevant to shareowners. Consideration is given to the terms of the proposal against the current company disclosures and industry standards, as well as the potential severity of risks.

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