

CalPERS' Executive Compensation Analysis Framework

April 2026



Executive Summary

The purpose of our Executive Compensation Analysis Framework is to outline CalPERS' views on compensation best practices and guide our approach to voting on compensation-related items.

We believe that well-designed executive pay is essential to attracting and retaining talented leaders. Accordingly, we believe compensation plans should be aligned with long-term shareholder value creation, and we support transparent incentive compensation programs that reward skill and achievement rather than general market appreciation.

Our foundational priorities include:

- The design and structure of compensation plans should promote long-term shareholder value creation.
- Compensation should not be overly volatile, as significant fluctuations in compensation can undermine the stability and focus required for long-term strategic execution.
- Long-term incentive compensation should be designed to reward senior executives for above market performance.
- Compensation plans should be straightforward and easily understood by both shareholders and executives, avoiding unnecessary complexity that can obscure true performance objectives.
- Compensation plans should not be excessively dilutive to existing shareholders, ensuring that equity awards are granted judiciously and in a manner that preserves long-term value.
- Equity awards should have long multi-year vesting periods to promote a long-term perspective.
- CEOs and senior executives should have significant personal stock ownership in the company.

We will continue to refine our Framework as the market evolves and we gain new insights. Our Framework is one of three interconnected documents guiding CalPERS' stewardship approach:

- [Governance & Sustainability Principles](#). This document articulates our overarching beliefs and principles that inform our proxy voting and engagements.
- [Proxy Voting Guidelines](#). This outlines our general voting approach across proposal categories
- Executive Compensation Analysis Framework: This provides a detailed methodology on how we evaluate executive pay.

Our Framework includes two pillars:


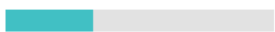


1. **Quantitative analysis** using our proprietary five-year CEO pay-for-performance (P4P) model
2. **Qualitative analysis** of the design and structure of compensation plans

Quantitative Analysis

We use our proprietary five-year quantitative P4P model developed in collaboration with Equilar to analyze pay and performance alignment.

CalPERS P4P Scorecard

The CalPERS P4P Scorecard shows the output of our five-year quantitative P4P model. Below is an example of the CalPERS P4P Scorecard.

5-Year Metrics	Values	Russell 3000 Percentile
P4P™ Score	-40	6 th 
Shareholder Financial Outcome (TSR)	2.8%	33 rd 
CEO Financial Outcome	50.5%	81 st 
Financial Outcomes Spread (Shareholder - CEO)	-47.7%	60 th 

P4P Score:

Our P4P score is calculated using Equilar’s patented P4P formula and our realizable pay methodology. Within our model, we define pay as five-year CEO cumulative realizable pay, or potential earnable pay, and performance as five-year cumulative total shareholder return (TSR). Our realizable pay methodology uses each company’s latest fiscal year-end to measure the current market value, or mark-to-market, of the cumulative CEO pay granted over each of the previous five years, known as grant date target pay.

We use realizable pay, the current market value of compensation awards, because it reflects actual performance outcomes, unlike grant date pay which remains static at the value assigned when awards were initially granted. Realizable pay helps us see how pay scales with performance as we assess the alignment of pay and performance.

We use TSR to measure performance because TSR reflects what we experience as investors. We invest in companies to earn returns, and we believe that over the long term, the performance of a company’s stock mirrors the performance of its underlying business.

Our P4P score assesses a company’s CEO pay relative to peers based on the company’s performance against those same peers over a five-year period. A negative score indicates the CEO is paid more than their performance justifies compared to peers. In other words, the company is paying a premium without delivering superior performance. A positive P4P score, while encouraging, does not guarantee our support. We also evaluate the CEO and Shareholder Financial Outcome analysis and qualitative plan features.

CEO and Shareholder Financial Outcomes Analysis:

We developed a financial outcomes analysis to compare the CEO's financial experiences to shareholders', which ideally should be aligned. We assess whether pay is aligned with performance and whether the compensation plan contains excessive leverage.

When compensation is overly sensitive to short-term stock price movements (high leverage), it can encourage executives to take excessive risks that undermine long-term value creation.

Shareholder financial outcome is the company's five-year cumulative TSR.

CEO financial outcome is the mark-to-market change in the five-year CEO cumulative grant date target pay as of the company's latest fiscal year end. Mathematically, the calculation is:

$$\left[\frac{5 - \text{yr CEO Cumulative Realizable Pay}}{5 - \text{yr CEO Cumulative Grant Date Target Pay}} - 1 \right] \times 100$$

Financial outcomes spread is the shareholder financial outcome minus the CEO financial outcome. The spread reflects how much better or worse off the financial experience of shareholders is relative to that of the CEO. It is meant to capture the degree of alignment between the CEO pay and shareholder interests.

Using the financial outcomes analysis, we can identify which compensation elements are driving the disconnect between the financial outcomes of the CEO and shareholders. The CEO financial outcome should primarily be driven by long-term equity awards as opposed to short-term incentive awards.

A CEO financial outcome that is driven by short-term incentives indicates that the compensation plan is not aligned with long-term shareholder value creation. Furthermore, pay and performance may be misaligned if the change in the value of equity held by the CEO is materially different from the change in the TSR experienced by shareholders.

For example, using the numbers from our scorecard above, the CEO financial outcome of 50.5% indicates that the five-year CEO cumulative grant date target pay gained 50.5% on a mark-to-market basis. On the other hand, shareholders gained 2.8% in TSR over the same period. The financial outcomes spread of negative 47.7% indicates that the financial experience of shareholders is significantly worse than that of the CEO. Also, the fact that the CEO financial outcome is 18x shareholder financial outcome implies that pay and performance are not aligned.

Our five-year P4P scorecard is available to anyone with access to the [Equilar Insight](#) platform.

Qualitative Analysis

Our qualitative analysis centers around the design and structure of compensation plans. 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 may 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 one-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

Appendix

QUANTITATIVE ANALYSIS FAQs

Why do you use a five-year performance period when the market practice is three years?

To effectively evaluate long-term company performance across all industries, we use a five-year performance period in our pay-for-performance (P4P) model. However, depending on a particular company's business model or product cycle, some companies may use a performance period (for long-term incentive compensation) that's less than five years, while others may believe a performance period of greater than five years is more appropriate. In general, we believe long-term incentive compensation shouldn't use a performance measurement period that's less than three years. Furthermore, as explained in the Qualitative Analysis section below, we prefer a minimum five-year holding period requirement on equity awards from the grant date.

Which components of pay are included in your realizable pay?

Our realizable pay includes the following:

- Salary and Bonus – actual salary earned and actual non-incentive bonus received
- Short-term incentive plan (STIP) cash – actual STIP cash awards earned
- Time-vested equity – intrinsic value of stock granted at target
- Time-vested options – Black-Scholes value of options granted at target
- Performance-based equity – intrinsic value of the equity granted at target and earned
- Performance-based options – Black-Scholes value of options granted at target and earned
- Long-term incentive plan (LTIP) cash – value of LTIP cash awards granted at target and earned

Which peers are used in your model?

We use the [Equilar market peers](#) as the default peer group in our model, but we also evaluate the model output using a company's own disclosed peers. Equilar applies a standardized approach to peer group selection, using an algorithm that considers the company's disclosed peers as well as other companies that identify it as a peer. The standardized approach allows us to apply the same peer group selection methodology across our entire universe of portfolio holdings.

What peer group benchmarking practices warrant careful consideration?

We consider opportunistic peer group selection and pay targeting to be one of the main drivers of upward pay momentum.

- Using different peers for benchmarking pay than those used to benchmark performance: This is usually accompanied by the use of peers outside of that company's sector or industry.
- Targeting peer median pay when long-term historical performance is lower than peer median: If a company's historical performance is at the 25th percentile of peers, it seems unjustified to target pay at the 50th percentile of peers.

We believe peer group selection should consider factors such as size, geographic footprint, business model, sector, and industry amongst others. In setting target pay, historical performance relative to appropriate peers must be factored into the equation. We would like to see comprehensive disclosure in the proxy regarding the appropriateness of selected peers and how target pay has been adjusted for historical relative performance differentials.

Does your model take into account CEO changes?

Our model is CEO agnostic. It's meant to measure pay and performance alignment, or lack thereof, over a five-year period. A change in CEO, without a change in the design and structure of the compensation plan, doesn't in and of itself improve alignment. We do consider material changes to the compensation plan if there is comprehensive disclosure in the proxy of the changes to enable us to prospectively assess future alignment. Our model assesses how effective the compensation plan is in incentivizing executives to create sustainable long-term shareholder value.

Does your model account for companies in highly cyclical businesses?

Our model is based on relative comparisons to peers for both pay and performance, and thus accounts for business cyclicity if the peers used are from the same sector and/or industry. This is why it's important for companies to use similarly situated peers when setting pay and measuring performance.

Does passing your quantitative P4P model guarantee a "FOR" vote?

The quantitative model is one of two components of our Executive Compensation Analysis Framework, the other being the qualitative analysis. As such, there is not a threshold for passing quantitative scores that guarantees a "FOR" vote. The output of the model informs our decision-making process and does not necessarily drive it. We perform further analysis of peers to assess their appropriateness and how they impact the model output. We also consider qualitative factors, which we view as risk mitigators and guardrails, to ensure that executives are always focused on long-term sustainable value creation. We use both quantitative and qualitative analysis in aggregate to decide how to cast our vote.

What do you consider to be short vesting periods for long-term equity awards?

We consider five years to be the preferred minimum vesting period for long-term equity awards. In practice, we typically accept three-year cliff vesting schedules with an additional two-year holding requirement as being equivalent to a five-year vesting period. In general, we are not supportive of equity awards with ratable vesting structures. We don't consider three-year ratable vesting to meet the minimum standard, unless an additional holding period is in place. To discourage a short-term focus ahead of separation, we also prefer longer post-separation holding periods (i.e., two years).

How do you consider stock ownership guidelines and holding period requirements?

While we support stock ownership guidelines, we prefer a minimum five-year holding period requirement on equity awards from the grant date. More specifically, we prefer that executives be restricted from selling the after-tax equity earned as a result of the shorter performance period until at least five years from the date of the equity grant to increase alignment with the interests of long-term shareholders. For example, if the equity vesting period is three years, we would like the equity awards to have an extra two-year holding period requirement, such that the executive can only sell it after a total of five years from the grant date.

For executives, stock ownership guidelines are not an effective substitute for holding-period requirements; we therefore support having both. We have observed that commonly used ownership guidelines—such as stock ownership equal to five times base salary—can often be met with a single year’s equity grant and, as a result, may lack meaningful impact. We prefer that companies adopt more robust stock ownership standards for executives, such as guidelines based on a multiple of total annual compensation rather than base salary alone.

Is CalPERS against the use of discretion by the compensation committee?

We are not against the use of discretion per se. We want to see judicious use of discretion. We use the following framework to look at the use of discretion, one-off awards, and other adjustments:

- What is the triggering event? Is it an externality outside of management control or is it a result of past management actions that did not pan out as promised?
- Is there comprehensive disclosure of why and how discretion is being applied?
- Is there a demonstrable history of discretion being applied symmetrically, that is, a history of both positive and negative discretion being applied?
- Is discretion being applied equitably across the organization or just reserved for executives?
- What is the impact on long-term incentives? Is discretion being used to opportunistically award equity at depressed stock prices?
- What are peers doing? Is flight risk a real possibility given that everyone is in the same situation?
- Are the one-off awards sufficiently tied to long-term performance?

Which performance metrics do you consider appropriate for compensation?

We don’t prescribe specific metrics for companies to use. We believe the compensation committee should identify the appropriate metrics and disclose the rationale for their choice, including how the chosen metrics are expected to drive long-term sustainable value creation for that particular company. We discourage companies from using too many metrics as this can lead to unnecessary complexity, lack of line of sight, and has the potential to reduce the effectiveness of the plan by providing executives with multiple opportunities to earn incentive awards.

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