

# CEO Retention Playbook: Feasibility, Investor Expectations, & Evolving Voting Dynamics

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# Presenters



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# A Shifting Succession Landscape That Raises the Stakes on CEO Retention

## CEO turnover is surging in 2025, and it's not just struggling companies making changes

**12%**

In 2025, **turnover among S&P 500 CEOs in the top three performance quartiles** (measured by total shareholder return) came in at 12%, nearly matching bottom-quartile performers (14%)

**32.7%**

**External CEO hiring** in the S&P 500 has nearly **doubled to 32.7%**, intensifying competition and poaching risk across the market



Most transitions aren't crisis-driven—**forced exits declined**—showing boards are acting proactively, not reactively



Boards **view volatility and AI-driven disruption** as the new normal, making leadership continuity more valuable

*\*Source: The Conference Board and Semler Brossy | CEO Succession Practices in the Russell 3000 and S&P 500: 2025 Edition*

Heightened turnover and stronger external pull are elevating CEO retention risk—setting the stage for discussions about long-term special incentives, including mega-grants, when stability and continuity matter most

# Founder Retention Risks Introduce New Strategic Pressures for Boards

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Many founder-led companies face unique retention challenges — not just in IPO settings, but across late-stage growth and scale when founder continuity is tightly linked to long-term value.

Founder drives core product direction

Founder shapes the company's culture and external narrative

Founder possesses irreplaceable knowledge or relationships

# The New Governance Regulatory Landscape

## Regulators Redefine Governance

**FEBRUARY 2025: New 13D/13G guidance** requires institutional investors to file full ownership reports if their engagement with companies is deemed to ‘influence control,’ significantly limiting open dialogue between investors and companies.

**NOVEMBER 2025: SEC will no longer respond to most Rule 14a-8 no-action requests**, making it easier for companies to exclude shareholder proposals, potentially unleashing a new wave of public ‘no vote’ shareholder campaigns.

## Investors Respond to New Political Climate

**The “Big Three” asset managers (BlackRock, Vanguard and State Street) continue to face scrutiny for concentrated voting power and perceived ESG influence.** They have split stewardship groups to decentralize decision-making, signaling that their voting is diversified and client-specific.

**State and municipal pension funds are raising their profile** by criticizing asset managers for either overemphasizing or neglecting ESG, placing them at the center of opposing pressures.

## New Shareholder Voting Dynamics

**Proxy voting is becoming political, focused on financial value. Index funds are growing more supportive of boards, while long-term active investors taking governance into account are adopting a tougher stance.**

**Market stakeholders are actively debating the concept of ‘mirror’ voting**, where passive funds vote in proportion to active manages.

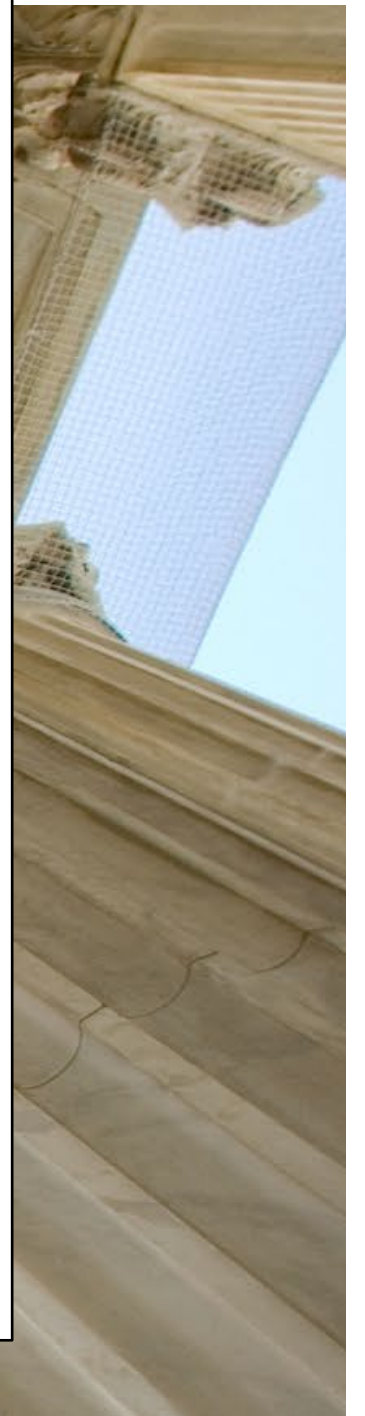
**ExxonMobil is testing retail voting control** via a new SEC-approved retail shareholder voting program, encountering legal challenges.

## Proxy Advisors Under Investigation

**ISS and Glass Lewis are facing anti-trust FTC investigations**, despite both companies expanding custom voting policies.

**Glass Lewis will phase out its “house view” recommendations starting in 2027**, shifting instead to four customized, client-specific voting frameworks.

**Broadridge is responding to proxy-advisor challenges** by emphasizing its role as a neutral infrastructure provider, expanding digital and global custom- and AI-driven proxy voting solutions.



# Adapting to Shifts in Investor Dynamics

**Companies are facing an increasingly complex voting landscape:**

Shifting investor voting dynamics amid regulatory pressures  
 Voting rationale and shareholder priorities are less transparent  
 Challenges in forecasting vote outcomes without proxy advisors' 'house view' vote recommendations

|   |  |
|---|--|
| <b>Securing investor support in a fragmented landscape necessitates robust shareholder dialogue</b> |  |
| <b>Deepen Engagement</b>  | Engage regularly to proactively understand shareholder perspectives, deploying a more nuanced interpretation of the feedback and data-driven insights to anticipate voting behavior    |
| <b>Diversify Communication Channels</b>   | Use new forms of digital and social communications to reach a wider audience of retail and actively managed funds, supplementing traditional governance-focused stewardship engagement |
| <b>Amplify Messaging</b>  | Leverage clear messaging that translates consistently across a fragmented investor base, emphasizing financial outcomes as a primary focus of Board governance and risk oversight      |
| <b>Customize Outreach</b>   | Tailor engagement strategy for index funds, active investors and retail holders to reflect their priorities  |

**It is important to establish dialogue with top shareholders during 'peace time' to build trust, enhance understanding of strategy and align expectations, before the Board seeks investor support for high-stakes contentious votes.**

# Why Boards Consider Special or Mega Awards

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## Competitiveness & Retention Pressures

- Peers may be adopting more aggressive or front-loaded award structures
- Retention concerns are elevated; executives may signal interest in longer-dated or differentiated incentives
- Leadership continuity may be critical during transformation, integration, or succession

## Strategic Goals & Time Horizon

- The company needs to drive outcomes beyond the scope of annual plans
- Multi-year strategic initiatives (3–10 years) require longer-term alignment and focus
- Some objectives—repositioning the company, executing a transformation—fall outside the reach of regular cycles

## Accounting & Equity Considerations

- Equity usage or dilution constraints may push boards toward structures with lower accounting cost
- Some award designs can deliver substantial value for less upfront expense, depending on valuation mechanics

# Performance Awards – Fair Value and Accounting

You don't need deep accounting expertise to design special retention or mega-grant awards, but it is essential to understand the factors that drive fair value and the triggers that determine when expense is recognized.

## Fair Value Impacts

*Award design features that impact the valuation of the award at grant*

- Market Conditions – Vesting conditions tied to stock price and market performance (Price Hurdles, Relative TSR, Market Cap)
- Post-Vest Holding Periods – Requirement that awards are held after vesting has occurred; allows for illiquidity discount to be taken at grant

## Expense Recognition

*Award design features that impact how the award is expensed over time*

- Performance Conditions – Vesting conditions tied to internal company goals that are trued up based on probability of achievement (Net Income, Revenue, FDA Approval)
- Service Conditions – Impact the requisite service period & the time over which the award is expensed (3 or 5-year vesting)

**Prior Comment:** *Some award designs can deliver substantial value for less upfront expense, depending on valuation mechanics*

### #1 Certain Design Features

Lowers the accounting fair value of the award at grant:

- Award Vehicle (Restricted Stock vs Options)
- Rigor of Market-Based Conditions
- Post-Vest Holding Periods

### #2 Performance Conditions

Can result in lower disclosure value and upfront expense:

- Rigorous goals (<70% probability) are not probable of vesting at grant
- Final expense aligns with achievement of goals

### #3 Front-Loading Awards

Award Sizing Considerations:

- Granting awards based on current prices instead of future (higher) pieces allows for larger grants with greater upside
- More units leads to greater potential value

# Award Types & Key Considerations

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## Front-Loaded Mega/Moonshot Awards

- Designed for outcomes far beyond annual-plan scope
- Support multi-year strategic inflection points (5–10 years)
- Capture outsized value when the company is being repositioned
- Replace annual grants and anchor long-term leadership commitment

## Special Retention or Performance Awards

- Drive focus on specific strategic initiatives (integration, transformation)
- Encourage cross-functional execution where standard metrics may not apply
- Provide retention value to key leadership to address unique circumstances (e.g., leadership transition)
- Additive to annual grants, typically with 3–4-year horizons

## Key Questions

- What specific outcomes or behaviors does the award need to drive?
- Can the company define stretch, multi-year goals?
- Is the award design consistent with the compensation philosophy and peer context?
- Should the structure apply only to the CEO, or more broadly to key leaders?
- Will the rationale be compelling to investors, proxy advisors, and employees?
- Do leaders have the “stomach” to commit to long-term goals?
- How confident is the company in the current leadership team’s ability to drive the intended outcomes?

# Spectrum of Awards and Special Award Alternatives

| Least Aggressive   |   | More Aggressive  |   |
|--|---|--|---|
| Regular Annual Grants  | Periodic Equity Grants  | Special Retention or Perf. Award   | Front-Loaded Mega Award   |
| <b>Typical Structure</b>   |   |  |   |
| <ul style="list-style-type: none"> <li>Mix of time and performance based equity, granted annually</li> <li>Typically structured consistently across the executive team</li> </ul>  | <ul style="list-style-type: none"> <li>Mix of time and performance based equity, covering 5 years</li> <li>Grant values reflect multi-year cadence (e.g., 3x annual value)</li> </ul>   | <ul style="list-style-type: none"> <li>Time and/or performance based equity, awarded to address unique circumstances</li> <li>Additive to annual grants and follow a similar timeline (3 years)</li> </ul>   | <ul style="list-style-type: none"> <li>Time and/or performance based equity, covering 10 years</li> <li>Typically replaces annual grants</li> <li>“Moonshot” awards include aggressive valuation hurdles</li> </ul>   |
| <b>Considerations</b>  |   |  |   |
| <ul style="list-style-type: none"> <li>Safest option given annual cadence</li> <li>Timeline eases goal setting concerns Less ‘stretch’ given short timeline</li> <li>Least retentive given cadence and award size</li> </ul> | <ul style="list-style-type: none"> <li>Ability to reflect long term goals</li> <li>More retention value given cadence</li> <li>Potential goal setting challenges given longer timeline</li> <li>Misalignment risk if strategy shifts over performance period</li> <li>High grant value may draw scrutiny</li> </ul> | <ul style="list-style-type: none"> <li>Ability to set more rigorous goals since additive to annual awards</li> <li>Ability to tailor design to individual/company needs</li> <li>Misalignment risk with other execs</li> <li>Potential for scrutiny since additive to annual awards</li> </ul> | <ul style="list-style-type: none"> <li>Most retentive given extended timeline and award size</li> <li>Supports ambitious long term goals</li> <li>Riskier since it replaces annual grants</li> <li>Potential goal setting challenges and greater ambiguity in terms of strategy to achieve goals (for moonshots)</li> <li>High grant value may draw scrutiny</li> </ul> |

# Common Front-Loaded Award Designs

Less Stock Price Weighting

Greater Stock Price Weighting

| Long Horizon Time Vesting   | Combo Valuation + Time  | Valuation + Financial/Strat. Milestones   | Valuation Hurdles (Moonshot)  |
|---|---|---|---|
| <b>Description</b>  |   |   |   |
| <ul style="list-style-type: none"> <li>• Time-vested shares or options vesting over several years</li> <li>• Larger awards may use longer vest (up to 10 years)</li> </ul>  | <ul style="list-style-type: none"> <li>• Mix of time- and performance-based equity for stability and motivation</li> <li>• Typically vests over 3 years; models may extend vesting like a moonshot</li> </ul> | <ul style="list-style-type: none"> <li>• Combines market metric with financial or strategy-related goals</li> <li>• “Multiple ways to win” with tranches tied to operational and market goals</li> </ul>                                  | <ul style="list-style-type: none"> <li>• Vesting tied to a ladder of stock price or valuation hurdles</li> <li>• Goals are typically very aggressive, requiring outperformance</li> </ul>   |
| <b>Considerations</b>   |   |   |   |
| <ul style="list-style-type: none"> <li>• Easy to understand and administer</li> <li>• Strong retention incentive</li> <li>• Not explicitly performance-based</li> <li>• Limits upside potential</li> <li>• Disliked by investors/ proxy advisors</li> </ul> | <ul style="list-style-type: none"> <li>• Balances strengths/weaknesses of PSUs and RSUs</li> <li>• Adds complexity (e.g., mix of vehicles, PSU goal setting, etc.)</li> </ul>                                 | <ul style="list-style-type: none"> <li>• Balances market/ operational performance</li> <li>• Clear operational roadmap with “multiple paths to win”</li> <li>• May be difficult to set operational goals and demonstrate rigor</li> </ul> | <ul style="list-style-type: none"> <li>• Concrete shareholder alignment</li> <li>• Demotivating if goals seem unattainable</li> <li>• Can put undue focus on raising stock price at all costs and disconnect from fundamentals</li> </ul> |
| <b>Market Examples</b>  |   |   |   |
| <ul style="list-style-type: none"> <li>• Palantir</li> <li>• The Trade Desk (IPO)</li> <li>• Slack</li> </ul>   | <ul style="list-style-type: none"> <li>• Figure</li> <li>• Compass</li> <li>• Warby Parker</li> </ul>   | <ul style="list-style-type: none"> <li>• Tesla</li> <li>• Axon</li> </ul>   | <ul style="list-style-type: none"> <li>• Coinbase</li> <li>• Robinhood</li> </ul>   |

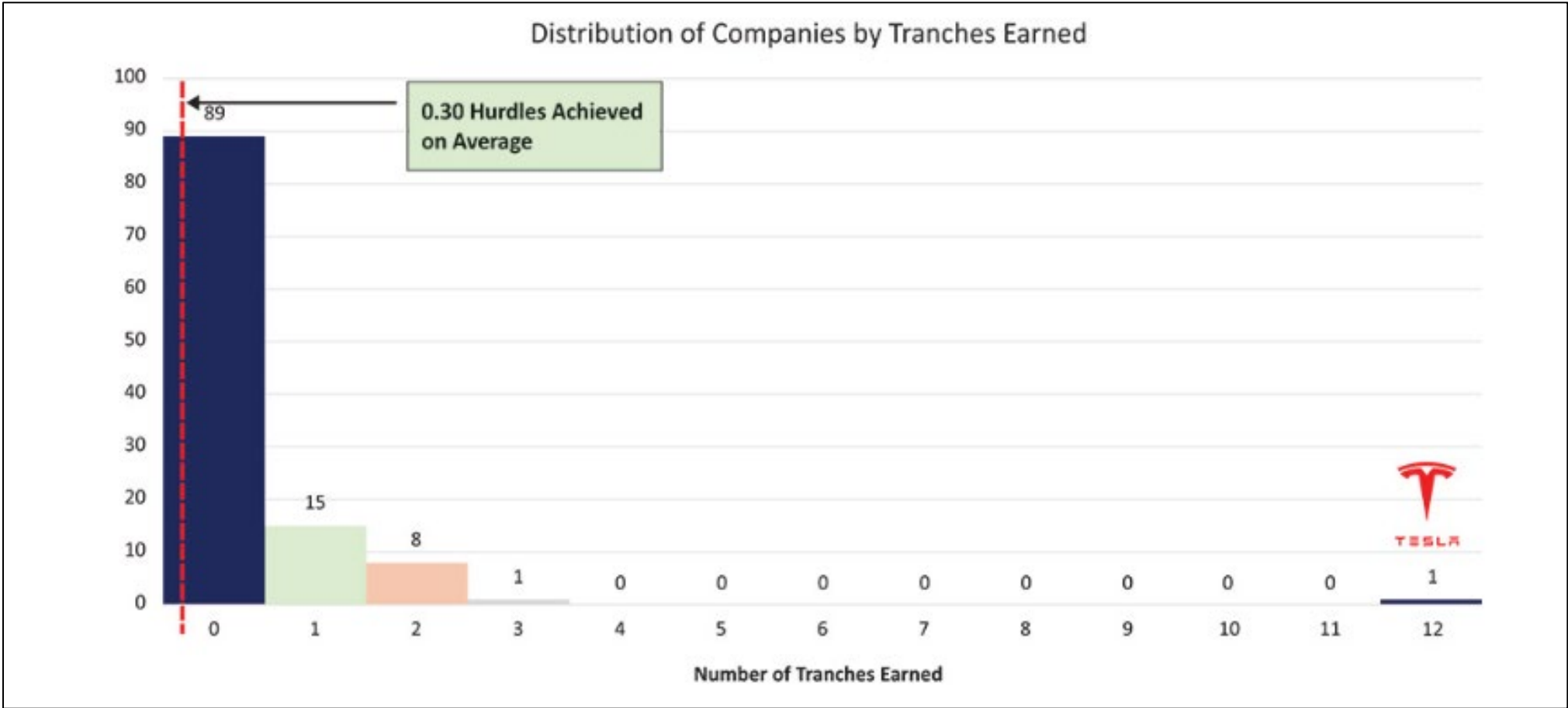
# Five Pitfalls

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- 1 Pursuing highly aspirational mega-award goals without a credible path to achieve them
- 2 Relying on vague or process-based metrics that are hard to measure or defend
- 3 Overlapping with existing incentive metrics, creating perceived duplication
- 4 Not considering external scrutiny due to large upfront value or additive awards
- 5 Creating future pressure to modify awards if they become underwater or misaligned

# Goal Rigor Assessment: Award Program Comparisons

Companies can assess the rigor of their incentive program is by back-testing that program design against peer companies to see how others would have performed against it. Tesla conducted this analysis ahead of Elon Musk’s recent grant. From Appendix A of Tesla’s proxy statement:



A comparative analysis of CEO performance at 113 large-cap companies ( $\geq \$50B$  market cap as of 2018) highlighted the award’s rigor:

- 79% failed to achieve even one tranche,
- 13% achieved just a single tranche,
- 7% achieved two tranches; and
- Only one company (NVIDIA) achieved three tranches.

| Company            | Market Cap Goals Achieved | Financial Goals Achieved | Tranches Earned |
|--------------------|---------------------------|--------------------------|-----------------|
| Tesla, Inc.        | 12                        | 12                       | 12              |
| NVIDIA Corp        | 3                         | 3                        | 3               |
| 8 companies (7%)   | $\geq 2$                  | $\geq 2$                 | 2               |
| 15 Companies (13%) | $\geq 1$                  | $\geq 1$                 | 1               |
| 89 Companies (79%) | —                         | —                        | 0               |

[Annex A, Appendix A, TSLA Definitive Proxy Filed 9/17/2025](#)

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## Be Prepared to Answer Two Fundamental Investor Questions:

### IS THE SPECIAL AWARD...

*a sign that the current compensation program is not working?*  
*a sign of an ineffective succession planning process?*

### WHY WAS IT NEEDED? WHY NOW?

- Narrative on critical CEO leadership must go beyond boilerplate disclosures
- Effective shareholder education of unique retention need will be critical (transformative growth phase, media speculation of flight risk, succession after a founder, etc.)

### WHAT INFORMED THE VALUE?

- Board process to demonstrate thoughtful evaluation of value
- Cost of retaining new executive
- Competitive market data
- Benchmarked against peer group special award practices
- All-or-nothing design to ensure payout only occurs if goals are met
- Extended vesting horizon to enforce long-term alignment

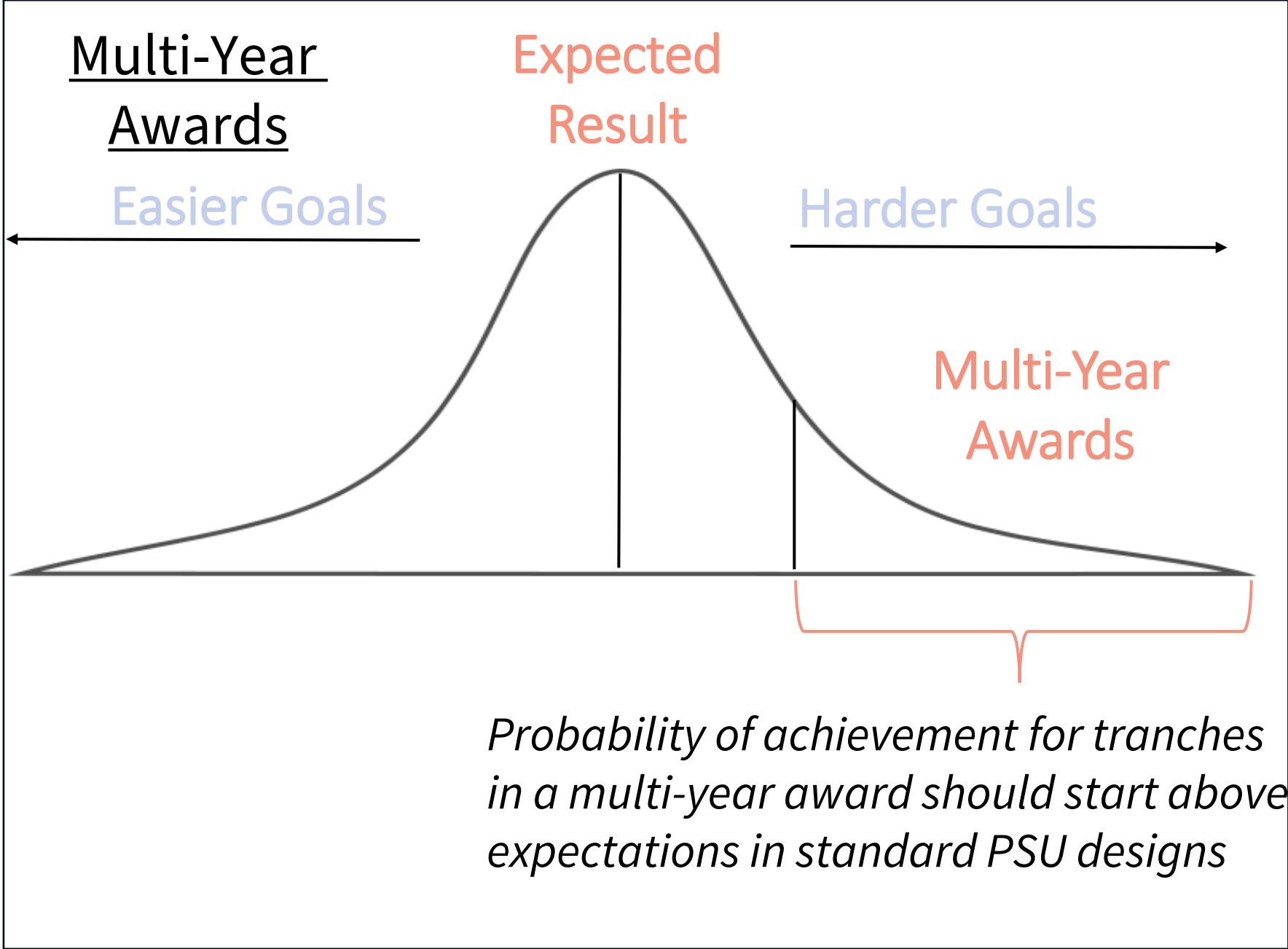
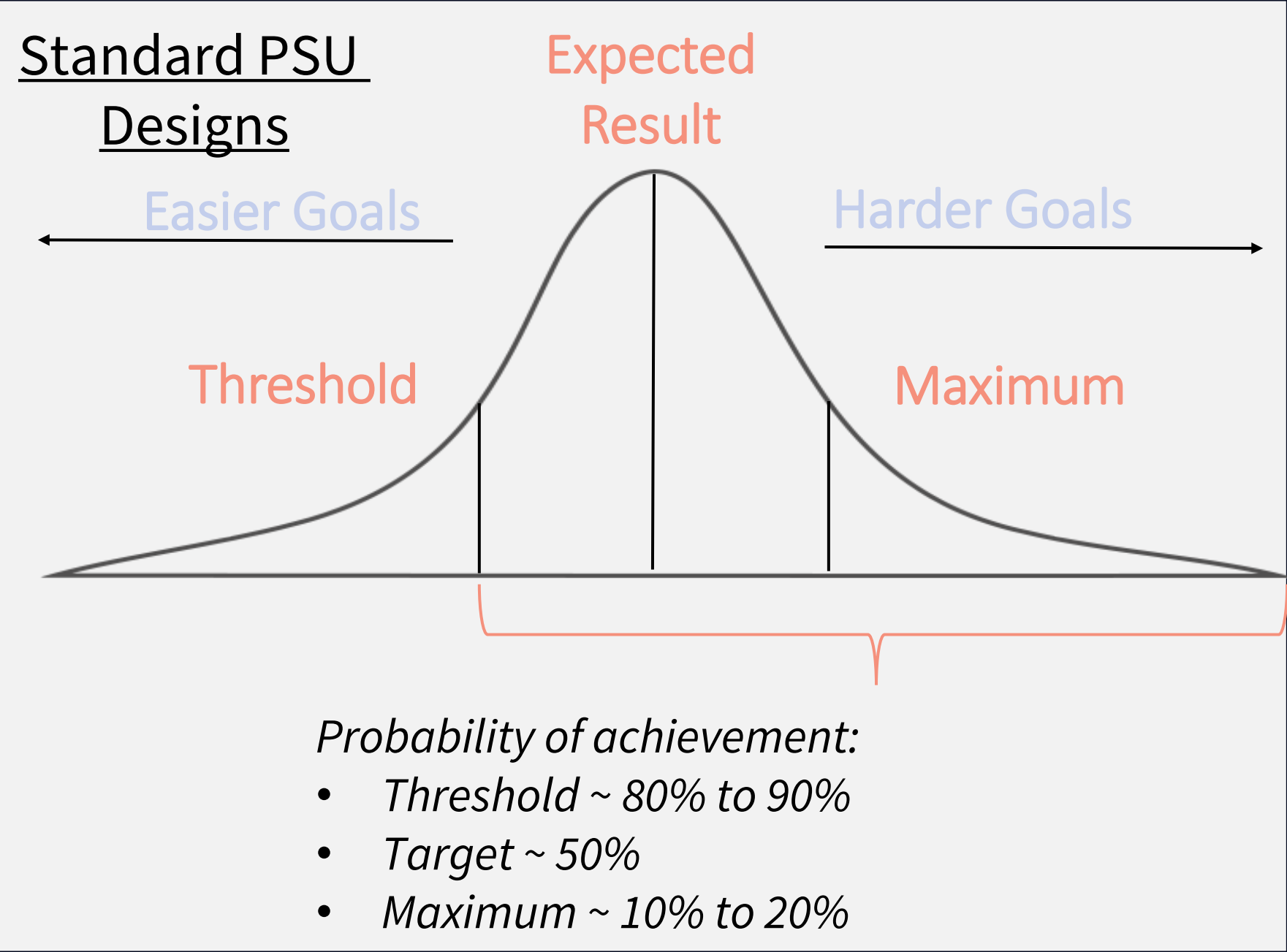
### IS IT RIGOROUS?

- Metric selection rationale and long-term strategic alignment
- Aggressive, measurable targets that incentivize year-over-year growth
- Value creation incentivizes that cannot be achieved through annual incentive program
- Clear link to shareholder experience

# Goal Rigor

Investors and proxy advisors expect that goals set within incentive programs balance rigor with retention such that maximum goals require meaningful outperformance of expectations and threshold goals require a reasonable level of performance to be achieved.

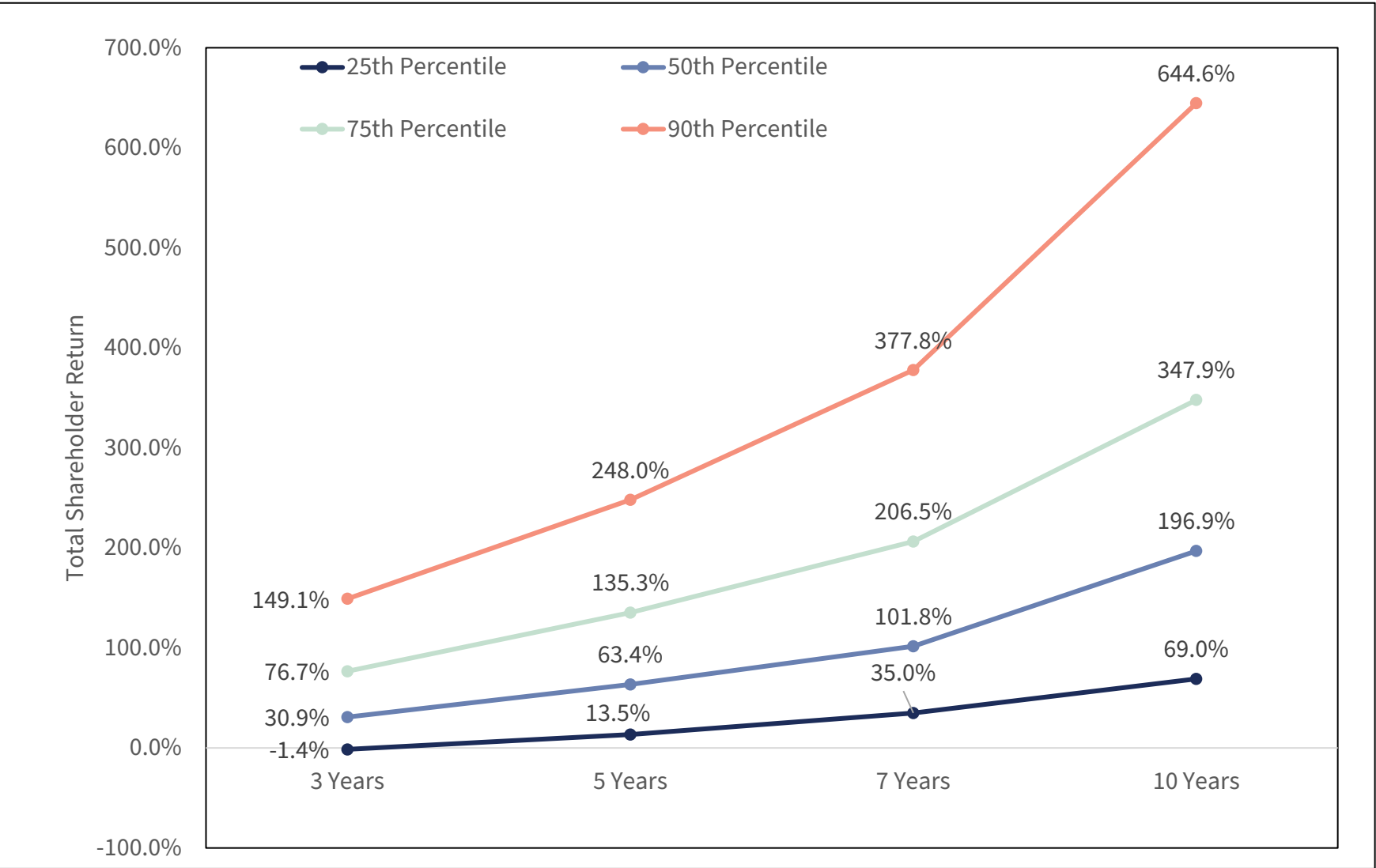
Investors expect that multi-year awards to have a higher standard of rigor given their larger upfront value and potential payout. Guidance on the specific rigor of these goals will vary depending on the how many years of compensation are being forgone and the size of the compensation opportunity.



# Goal Rigor Assessment: Back Testing

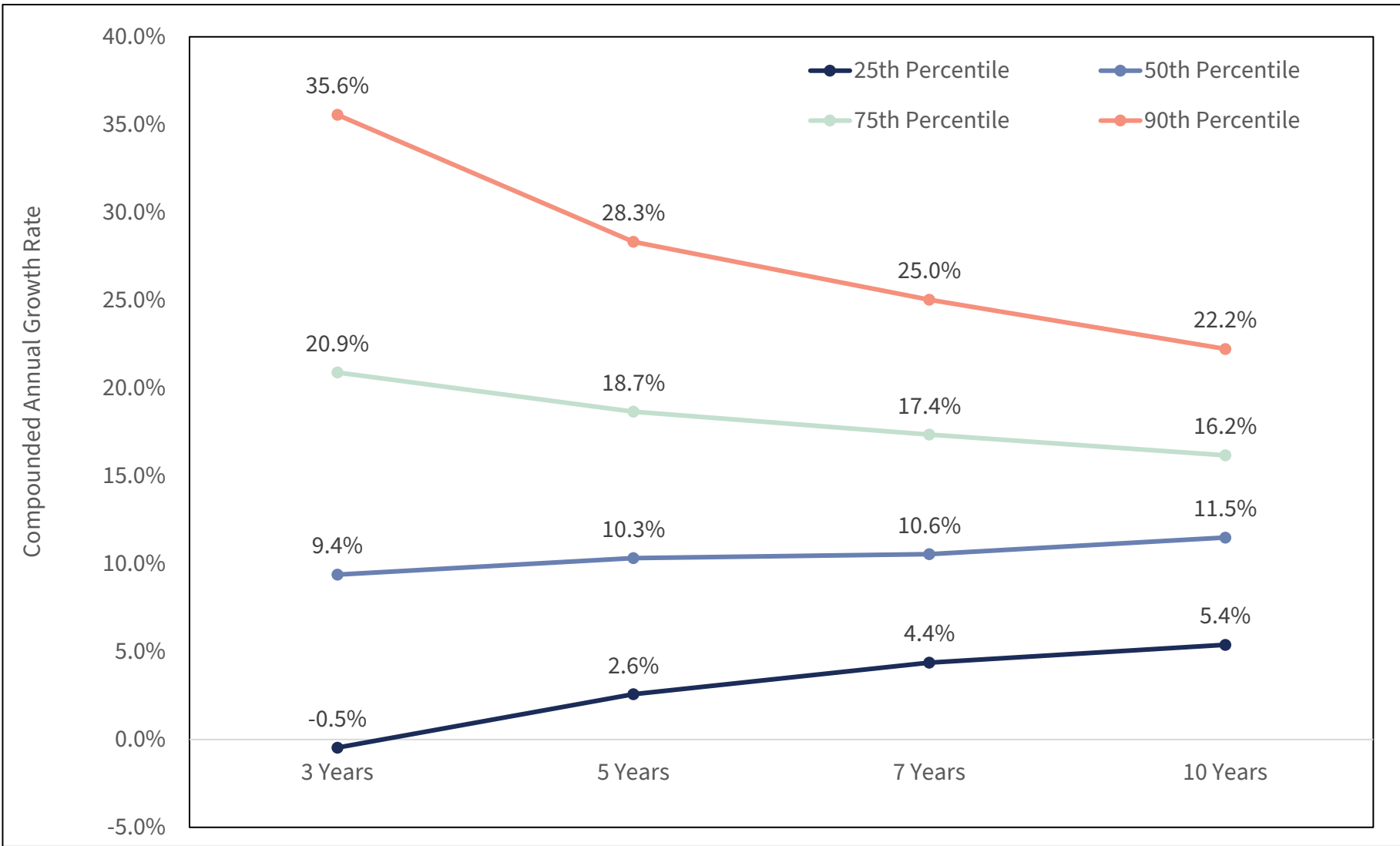
Another way companies can assess the rigor of their incentive program is by back-testing peer group TSRs to see how they have performed historically.

S&P 500 Total Returns by Percentile, 3 – 10 Years



- Compounding of TSRs shows growth potential of Front-loaded awards vs Annual awards
- Also shows need for rigorous goals, especially for longer performance periods (7 to 10 years)

S&P 500 CAGRs by Percentile, 3 – 10 Years



- Compounded Annual Growth Rates (CAGR) tend to level off over time, converging towards 10%;
- Useful for shorter term periods, but can be misaligned if long term CAGRs are used for short-term performance periods










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# Examples of CEO Moonshot Award Adjustments & Cancellations

While moonshot awards may be compelling, it is important to acknowledge that many companies ultimately end up adjusting them or even cancelling them outright in favor of more traditional annual award structures.

|  |   |  |   |
|--|---|--|---|
|  <p><b>COMPASS</b></p> <p>Replaced with annual RSUs and higher cash</p>                   |  <p><b>ROBLOX</b></p> <p>Replaced with annual PSUs/RSUs</p>                    |  <p>paycom®</p> <p>Forfeited following leadership restructuring</p> |  <p>Robinhood </p> <p>Cancelled Award</p> |
|  <p><b>instacart</b></p> <p>Replaced with redesigned performance award ahead of IPO</p> |  <p>reddit</p> <p>Replaced with time-based RSUs and options prior to IPO</p> |  <p>Sonder</p> <p>Adjusted Stock-price hurdles</p>                |  <p>CCC<br/>INTELLIGENT SOLUTIONS</p> <p>Adjusted TSR metrics and extended performance period</p>                          |



# Award Pre-Approval Check List

## 1. Shareholder Base & Sentiment

- Ownership mix: Passive / Active / Retail
- Top 20 holders and proxy advisor influence
- Sentiment map: Supportive / Neutral / Skeptical (by investor and rationale)

## 2. Anticipated Hot Button Issues

- Quantum, share dilution, performance rigor, vesting length, granting patterns
- Potential award design flex points: performance metrics, TSR modifiers, post-vest holding

## 3. Messaging Strategy

- Established communications channels: IR team/CFO, Corporate Secretary/CLO, Board members
- Upcoming regularly scheduled engagements: off-/in-season stewardship engagement cycle, quarterly earnings, 1:1 discussion, board-level touchpoint
- Media contact and prior media sentiment regarding any special compensation decisions

## 4. Timing and Sequencing

- Calendar check: earnings, proxy filing timeline, other strategic events and announcements
- Be strategic about 8-K disclosure to ensure key grant details are included to support meaningful discussions with investors

# Building Shareholder Support through Ongoing Dialogue

## Engagement Best Practices

- Board leads investor dialogue on executive compensation
- Emphasize alignment of the awards with strategic priorities
- Demonstrate ‘how’ the award advances strategic priorities, the rigor of the incentive structure and alignment with shareholder interests
- Use visual illustrations in the engagement materials, in addition to authentic messaging, to demonstrate the link between the special award and shareholder value creation
- Convey a rigorous decision-making process that preceded the award approval
- Reflect understanding of individual investor priorities and prior discussion topics, particularly related to executive compensation matters
- Do not make forward-looking commitments at the engagement meeting
- Understand where there is investor conviction on a fundamental perspective vs. lack of understanding
- **Ask questions to solicit investor perspectives**

## OFF-SEASON

Optimal time to educate shareholders and show Board accountability to performance without voting pressure

Look for additional informal engagement opportunities with investors throughout the year

## IN-SEASON

Proxy statement and supplemental materials should address shareholder feedback and support a campaign-style vote solicitation; **this should not be the first time the company is engaging with shareholders on this topic**

# Questions?

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