

## MINUTES OF THE SEPTEMBER 12, 2016, COMPENSATION AND HUMAN RESOURCES COMMITTEE MEETING

The Compensation and Human Resources Committee (“Committee”) of the Smithsonian Institution (“Smithsonian”) Board of Regents held a meeting on September 12, 2016, at the Smithsonian Castle in Washington, DC. Participating were Committee Chair John Fahey\*; Committee members Ambassador Barbara Barrett\*; Senator John Boozman\*; and Board and Executive Committee Chair John W. McCarter, Jr.\*

Also present by invitation of the Committee were Secretary of the Smithsonian David J. Skorton; Associate Director of the Office of Human Resources (“OHR”) and Chief of Staff to the Secretary Greg Bettwy; Director of OHR James Douglas; Senior Researcher & Writer for the Office of the Regents Jennifer Ehlinger (recorder); Inspector General Cathy Helm\*; Under Secretary for Finance & Administration/Chief Financial Officer Albert Horvath; General Counsel Judith Leonard; Liaison for Representative Becerra Grisella Martinez; and Chief of Staff to the Regents Porter Wilkinson.

Pearl Meyer consultant Jim Hudner\* also participated in the meeting.

### CALL TO ORDER AND INTRODUCTIONS

Committee Chair John Fahey called the meeting to order at 10:01 a.m. He welcomed the Committee members and meeting participants. Smithsonian staff then went around the room to introduce themselves for the benefit of those participating by phone.

### APPROVAL OF MINUTES

Upon motion duly made and seconded, the draft minutes of the January 20, 2016, Committee meeting were approved without modification.

### CALENDAR YEAR 2017 COMPENSATION

As a part of the annual cycle of the Committee, the September meeting is focused on reviewing the core principles and decisions, which form the foundation for the executive pay cycle, and culminates with the compensation recommendations that the Committee and the full Board of Regents (“Board”) will review in January.

#### ***2017 List of Disqualified Person Positions***

Associate Director for Human Resources and Chief of Staff to the Secretary Greg Bettwy presented materials to support the Committee’s annual decision on disqualified persons. Mr. Bettwy reviewed the list of disqualified persons, which was updated to reflect the Secretary’s reorganization of senior management in February 2016.

*\*Participated by telephone*

Upon motion duly made and seconded, the following was approved:

**VOTED** that the Compensation and Human Resources Committee adopts the proposed 2017 list of disqualified persons.

***2017 Decision-Making Levels***

Mr. Fahey reminded the Committee about the recent changes to the decision-making levels, which determine the positions that come to the Committee and the Board for review. The changes approved by the Committee in September 2015 ensure that the Board can focus its attention on the top tier of compensation decisions. Based on the 2015 update to the decision-making levels, the Board's review currently includes the following: Trust Positions that report to the Regents and/or Secretary; Federal Positions that report to the Regents (Inspector General); Trust Positions designated as Disqualified Person positions; and any other position with a proposed salary above \$275,000, or proposed total compensation above \$300,000.

The Committee agreed with management's recommendation that the decision-making levels remain the same, which will result in 11 positions coming to the full Board for review in January 2017.

Upon motion duly made and seconded, the following was approved:

**VOTED** that the Compensation and Human Resources Committee adopts the 2017 proposed decision-making levels.

***2017 Comparable Process***

Pearl Meyer Consultant Jim Hudner briefed the Committee on the firm's recommended approach for determining comparable compensation for Trust executive positions.

Upon motion duly made and seconded, the following was approved:

**VOTED** that the Compensation and Human Resources Committee adopts the proposed method for determining comparable for the 2017 executive compensation process.

***2017 Updated Compensation Philosophies***

Mr. Bettwy reviewed the 2017 proposed compensation philosophies. In order to finalize the philosophies, the Committee must review the federal pay scale, which will not be issued until December 2016. The Committee agreed to adopt the draft 2017 Federal and Trust compensation philosophies and will review and approve the final versions in January 2017.

***Committee Charter Review***

The Committee reviewed its Charter, per its mandate to review and assess at least annually the adequacy of the Charter and evaluate its own performance with respect to its requirements. The current Charter was adopted in 2008 as part of the Smithsonian's governance reforms and in order to comply with best practices, an annual review of the Charter was instituted in 2014.

The Charter was last reviewed by the Committee in September 2014, with proposed updates approved by the Board in January 2015.

The Committee made no updates to the Charter and agreed that it should remain unchanged, as no changes are needed since the most recent update, which was approved by the full Board in January 2015.

### ***Investment Incentive Payouts***

The Committee reviewed preliminary data for the investment incentive payout for the annual performance period ending June 30, 2016. The Committee was reminded that the investment incentive program includes both a quantitative and a qualitative component. Preliminary data shows the Smithsonian's annual portfolio at -2.1%, which was 0.2% less than the benchmark return of -1.9%. The data also show a three-year portfolio return of 6.0%, which was 2.4% greater than the benchmark return of 3.6%. All of the preliminary data will be verified and validated by a third party, before being formally presented to the Committee for review and discussion in January 2017.

Under Secretary for Finance & Administration/Chief Financial Officer Al Horvath updated the Committee on the general framework and implementation progress of the incentive program for the Office of Investment and Smithsonian Enterprises. Mr. Horvath also reviewed preliminary estimates of maximum total cash levels for certain executives. All of the preliminary data will be verified and validated by a third party, before being formally presented to the Committee for review and discussion in January 2017. The Committee asked for additional historical information on the investment incentive payouts.

### ***Updated Compensation Timeline***

The Committee then reviewed the overall timeline for the 2017 executive compensation process.

## **OUT OF CYCLE EXECUTIVE AWARD PAYMENT**

Executives at the Smithsonian receive annual performance awards based on the executive compensation cycle. The performance period runs from October 1 to September 30, which mirrors the fiscal year. All recommendations are gathered and brought to the Secretary for review, with approximately 35 of the executives subject to review by the Board.

Executives who depart prior to the performance award payout period are eligible to receive performance awards if their performance merits such recognition. The award would go through the normal review and approval process; however, review would occur earlier than normal in order to permit early payment prior to the employee's departure.

Mr. Bettwy briefed the Committee on the possibility of such a request: to approve an early payment of a performance award for a departing executive. If an early award payment is formally requested, the Committee will receive additional details and information to support the request at its next scheduled meeting in December.

## **EXECUTIVE SESSION**

The Committee adjourned to an executive session at approximately 10:36 a.m., during which General Counsel Judith Leonard provided the Committee with an update on a legal matter.

## **ADJOURNMENT**

The meeting was adjourned at approximately 11:30 a.m.

Respectfully submitted,

John Fahey  
Chair