

MINUTES OF THE JANUARY 22, 2014, COMPENSATION AND HUMAN RESOURCES COMMITTEE MEETING

The Compensation and Human Resources Committee (“the Committee”) of the Smithsonian Institution Board of Regents held a meeting on January 22, 2014, at the Smithsonian Institution Building in Washington, D.C. Participating were Committee Chair Ambassador Barbara Barrett and member Representative Xavier Becerra*; Board Chair and Board and Executive Committee Chair France Córdova* also participated. Senator Thad Cochran and Patricia Q. Stonesifer were unable to participate.

Also present were Chief of Staff to the Secretary Patricia Bartlett, Associate Director of the Office of Human Resources (OHR) Gregory R. Bettwy, Acting Inspector General Epin Christensen, Director of OHR James D. Douglas, Assistant to Senator Cochran T.A. Hawks, Under Secretary for Finance and Administration and Chief Financial Officer Albert Horvath, General Counsel Judith Leonard, Assistant to Representative Becerra Grisella Martinez, Chief of Staff to the Regents Porter N. Wilkinson, and PricewaterhouseCoopers (PwC) consultants Bruce Clousure* and Heather O’Neal*.

CALL TO ORDER AND APPROVAL OF MINUTES

Committee Chair Ambassador Barbara Barrett called the meeting to order at 10:00 am. Approval of the September 9, 2013, meeting minutes was deferred until a quorum was established.

CHARTER REVIEW

In accordance with governance best practices, each committee of the Board of Regents regularly review its charter. Going forward, the Compensation and Human Resources Committee charter will be reviewed each fall. Ambassador Barrett presented proposed modifications to the Committee charter, and noted that the modifications will memorialize the Committee’s best practices that already are in effect. Approval of the proposed modifications was deferred until a quorum was established.

SMITHSONIAN ENTERPRISES INCENTIVE UPDATE

PwC consultant Bruce Clousure presented an update on the Smithsonian Enterprises (SE) incentive plan, which also had been discussed during the Committee’s September 2013 meeting. The Smithsonian engaged PwC to review the overall SE incentive program and the consideration of implementing a long-term component to the overall incentive approach for SE. The October 2013 shutdown of the Federal government impacted the conduct of the review, and a final report will be provided at a future meeting.

* *participated by teleconference*

2014 SALARY INCREASE

Ambassador Barrett reported that the Federal salary freeze in effect since 2010 officially ended with the President's recommendation of a 1 percent general increase to general and executive pay schedules for calendar year 2014, which Congress did not oppose. In response, the Smithsonian also eliminated its freeze on Trust salaries. Ambassador Barrett noted that the elimination of both salary freezes would allow the Committee to consider real salary increase recommendations. The Committee was reminded that the Smithsonian received provisional certification for its senior-level performance management system in August 2013. The system meets criteria established by the Office of Personnel Management (OPM) for pay and award differentiation, and also is subject to strict reviews by OPM.

EMPLOYEE DATA

Ambassador Barrett opened the discussion of compensation recommendations by reminding Committee members that, as a compensation review board for a not-for-profit organization, each is obligated to disclose any real or perceived conflicts of interest with regard to any of the executives noted in the meeting materials. Each member affirmed they held no real or perceived conflicts of interest, and General Counsel Judith Leonard confirmed the participants' attestations were sufficient to support the compensation deliberations.

Ambassador Barrett said the Committee is responsible for reviewing 234 compensation recommendations for calendar year 2014, some of which will be forwarded to the full Board for its approval. The Committee discussed the updated compensation philosophies it had approved at its September 2013 meeting.

Decisions Made by the Committee. The Committee first reviewed compensation information regarding the positions for which the Committee alone approves compensation decisions. The positions include those considered to be market-based and Federal-equivalent, which are Trust-funded positions. Dr. Córdova requested that future compensation materials clearly delineate which positions are Trust and which are Federal. Summary data provided in Tab C of the meeting materials included general demographic information, performance appraisals, and average total cash and salary awards for 2014. The Committee reviewed justifications for variances above and below the competitive market range, and discussed three executives' compensation noted as below market range.

Decisions Made by the Full Board. Ambassador Barrett reminded the Committee that compensation decisions for a limited number of "high-impact" positions require the approval of the full Board, and stated that decision-making material for two senior executives had been added to this year's review. Individual staff exited the meeting during discussion of their compensation.

The Committee discussed four instances wherein compensation recommendations exceeded the competitive market range. Mr. Clousure expressed PwC's position that each recommendation was reasonable for IRS purposes and falls within plus or minus 15 percent of

the competitive market range. The Committee affirmed its support the proposed compensation for these positions.

Mr. Bettwy reminded the Committee that it had discussed the compensation of certain Office of Investments (OI) senior executives at its September 2013 meeting. Also, the Committee had previously eliminated the deferred compensation component that had been part of OI's incentive plan, and committed to paying out the remaining deferred compensation in calendar years 2013 and 2014. The proposed 2014 compensation for those individuals, he said, includes the remaining deferred compensation. Mr. Clousure said the OI compensation structure and proposed salaries are consistent with market practice of peer organizations, such as universities, museums with large endowments, and foundations, and conform to regulatory policies. He also acknowledged the outstanding performance of the Endowment in 2013.

At this time, Representative Becerra joined the meeting and a quorum was achieved. Ambassador Barrett requested an expedited review of certain action items.

APPROVAL OF THE MINUTES

Upon motion duly made and seconded, the draft minutes of the September 9, 2013, Committee meeting were approved without modification.

APPROVAL OF MODIFICATIONS TO THE COMMITTEE CHARTER

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

VOTED that the Compensation and Human Resources Committee approves the recommended modifications to the charter and submits it to the Board of Regents for approval.

CONTINUATION OF COMPENSATION DELIBERATIONS

Decisions Made by the Committee. The Committee resumed its discussion of positions for which the Committee alone approves compensation decisions. Representative Becerra attested that he held no real or perceived conflicts of interest with regard to any of the executives noted in the meeting materials. Upon motion duly made and seconded, the following motion was approved:

VOTED that the Compensation and Human Resources Committee approves the Secretary's compensation recommendations for those positions in Tab C.

Decisions Made by the Full Board. The Committee resumed its discussion of positions for which the Committee recommends compensation decisions for approval by the full Board. It directed its attention to the compensation of certain Office of Investments (OI) senior executives, the prior compensation commitments that had been extended to those executives, and, going forward, the possible amendment of the compensation structure for those

executives. The talent of OI executives and the strong management of the Endowment were again recognized. Mr. Bettwy explained that part of the current compensation plan is based on the absolute return of the Endowment; no basis points can be earned for a year during which a positive absolute return was not achieved.

Representative Becerra asked that the compensation structure for OI executives be reviewed with the full Board, and Ambassador Barrett requested OHR staff to develop alternative compensation structures that continue to recognize OI talent. Mr. Bettwy suggested that the agenda for the spring 2014 meeting of the Committee include discussion of incentive programs for both OI and SE executives. The discussion would be intentionally disengaged from discussion of compensation decisions.

After consideration and upon motion duly made and seconded, the following motion was approved:

VOTED that the Compensation and Human Resources Committee agrees to recommend that the Board of Regents approves the Secretary's compensation recommendations for those positions in Tab D.

EXECUTIVE SESSION

During executive session, the Committee discussed the performance and proposed compensation for the former Chief of Staff to the Regents John K. Lapiana. After consideration and upon motion duly made and seconded, the following motion was approved:

VOTED that the Compensation and Human Resources Committee agrees to recommend approval by the Board of Regents of the Executive Committee's compensation recommendations for former Chief of Staff to the Regents John K. Lapiana.

Dr. Córdova briefed the Committee on Secretary Wayne Clough's performance during fiscal year 2013, which was recognized as outstanding. The Committee reviewed a competitive total remuneration analysis provided by PwC and concluded that the proposed compensation for the Secretary was consistent with the recommendation of the Executive Committee and with comparable positions identified by PwC. After consideration and upon motion duly made and seconded, the following motion was approved:

VOTED that the Committee recommends to the Full Board that the Secretary receive a 3.5 percent salary increase, and a \$20,000 cash award.

The Committee adjourned the meeting at about 12:00 p.m.

Respectfully submitted,

Barbara Barrett
Chair