

MINUTES OF THE SEPTEMBER 18, 2019, MEETING OF THE COMPENSATION AND HUMAN RESOURCES COMMITTEE

The Compensation and Human Resources Committee ("Committee") of the Board of Regents ("Board") of the Smithsonian Institution ("Smithsonian") held a meeting on September 18, 2019, at the Smithsonian Castle in Washington, D.C. Participating were Committee Chair John Fahey, and Committee members Senator John Boozman,* Ambassador Barbara M. Barrett, and Michael Govan.*

Also present by invitation of the Committee were Secretary Lonnie Bunch; Chief of Staff to the Secretary Greg Bettwy; Provost and Under Secretary for Museums, Education, and Research John Davis; Deputy Chief of Staff to the Regents Kate Forester; Acting Under Secretary for Finance and Administration/Chief Operating Officer Mike McCarthy; Pearl Meyer Compensation Consultant Jim Hudner;* General Counsel Judith Leonard; Human Resources Specialist Suleyka Lozins; Director of the Office of Equal Employment and Minority Affairs Era Marshall; Director of the Office of Human Resources Brenda Richardson Malone; and Chief of Staff to the Regents Porter Wilkinson.

CALL TO ORDER AND AGENDA REVIEW

Committee Chair John Fahey called the meeting to order at 2:00 p.m. and reviewed the agenda.

COMMITTEE CHARTER REVIEW

Chief of Staff to the Regents Porter Wilkinson discussed potential modifications to the Committee charter. As part of an effort to promote an inclusive and respectful work environment that is free from harassment, the Regents have asked the Committee to amend its Charter to help clarify the types of information related to sexual harassment that must be reported to the Board. The Regents will direct senior management to implement the appropriate reporting procedures. A complete review of the Charter along with the proposed amendment will be presented to the Committee at its next meeting for approval.

APPROVAL OF MINUTES

Upon motion duly made and seconded, the Committee approved the draft minutes of the January 18, 2019, meeting without modification.

CALENDAR YEAR 2020 COMPENSATION

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

**Participated by telephone*

2020 List of Disqualified Person Positions

Mr. Fahey presented the proposed list of disqualified person positions for 2020, which was determined to reflect the proportions of resources across the organization, as well as the impacts of reorganizations on positions, titles, and resource levels.

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

VOTED that the Compensation and Human Resources Committee approves the 2020 list of disqualified person positions.

2020 Decision-Making Levels

Mr. Fahey reviewed the set of criteria that distinguishes compensation decisions made by the Regents and those made by the Secretary. The Committee agreed with management's recommendation that the compensation threshold be updated to account for the increase in general market data. Based on the updated decision-making levels, the Board's review will include 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 \$300,000 or proposed 2020 total compensation above \$325,000. The new decision-making levels will result in 30-40 positions being presented to the full Board for review in January 2020.

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

VOTED that the Compensation and Human Resources Committee approves the 2020 decision-making levels.

2020 Updated Compensation Philosophies

Next, Mr. Fahey led the Committee's review of the Trust and Federal compensation philosophies, which are reviewed and updated annually to reflect changes in compensation approaches, salary ranges, and/or effective dates. Mr. Fahey reminded the Committee of the modified compensation philosophy approved in 2018, which includes the Augmented pay approach for select Trust executive positions that exist in the Federal labor market but are differentiated on the basis of diverse, highly specialized, complex roles and responsibilities that are unique to the Smithsonian.

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

VOTED that the Compensation and Human Resources Committee approves the 2020 updated compensation philosophy.

2020 Comparable Process

Pearl Meyer Consultant Jim Hudner provided an overview of the recommended approach to determining comparable compensation for Trust executive positions for the 2020 process.

Pearl Meyer will benchmark approximately 55 positions and the data for the remaining positions will be aged from last year's efforts. This reflects the Smithsonian's approach of aging data every other year. Mr. Hudner outlined the approach and methodology for assessing the competitiveness and reasonableness of Smithsonian compensation levels, which is guided by the Smithsonian's compensation philosophies, and the benchmarking analysis of market peers. The Committee reviewed the recommended comparable process to be used for 2020.

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

VOTED that the Compensation and Human Resources Committee approves the 2020 comparable process.

Correction to the Amendment to the Investment Incentive Compensation Plan

At the September 2018 meeting of the Compensation and Human Resources Committee, the Committee approved an amendment to the Investment Incentive Compensation Plan to include a new incentive plan design for the Director of Investment Operations. The approved amendment incorrectly identified the quantitative portion of the bonus as a measurement of performance over a one- and two-year basis instead of the plan's current one- and three-year measurement. Mr. Fahey clarified that the proposed action would merely correct the record to reflect the appropriate formula with the plan's current measurement.

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

VOTED that the Compensation and Human Resources Committee approves the correction to the amendment to the Investment Incentive Plan to use the correct quantitative formula one- and three-year measurement.

Preliminary Investment Incentive Payouts

The Committee reviewed preliminary data used to project the investment incentive payout for the 2019 performance year. Mr. Fahey reported that for the annual performance period ending June 30, 2019, preliminary data show the Institution's annual portfolio return was 9.9%, which was 7.3% greater than the benchmark return of 2.6%. The data also show a three-year portfolio return of 11.5%, which was 4.8% greater than the benchmark return of 6.7%. Mr. Fahey highlighted the preliminary estimates of maximum total cash levels for certain executives included in the investment incentive program, and he noted that the preliminary data will be verified and validated by a third party, prior to being formally presented for the Committee's review and discussion in January 2020.

Pay Equity Analysis and Alternative Executive Compensation Pay Band Approach

As part of the effort to provide a consistent and balanced approach to setting pay while ensuring internal equity is considered, the Committee discussed two initiatives related to the annual compensation process. First, the Committee directed its compensation consultant Pearl Meyer and management to conduct an internal pay equity analysis. Second, the current compensation approach for Trust market-based positions was evaluated. Preliminary

information was considered regarding an alternative methodology – a pay band approach – to the current position specific approach. The Committee requested that Pearl Meyer and management work together to further refine the specific framework and parameters of this new approach. The Committee will be briefed in more detail on the pay equity analysis and the pay band approach at its next meeting.

EXECUTIVE SESSION

The Committee moved to an Executive Session at approximately 2:37 p.m.

ADJOURNMENT

With no further business to consider, the meeting was adjourned at approximately 2:42 p.m.

Respectfully submitted,

John Fahey
Chair