

MINUTES OF THE SEPTEMBER 20, 2017, MEETING OF THE COMPENSATION AND HUMAN RESOURCES COMMITTEE

The Compensation and Human Resources Committee (“Committee”) of the Smithsonian Institution Board of Regents (“Board”) conducted a meeting on September 20, 2017, in the Regents’ Room at the Smithsonian Castle in Washington, D.C. Participating were Committee Chair John Fahey,* and Committee members Ambassador Barbara M. Barrett,* and Congresswoman Doris Matsui.*

Also present by invitation of the Committee were Chief of Staff to the Secretary and Associate Director, Office of Human Resources, Greg Bettwy; Deputy Chief of Staff to the Regents Kate Forester; Inspector General Cathy Helm;* Under Secretary for Finance & Administration/Chief Financial Officer Albert Horvath; Pearl Meyer Compensation Consultant Jim Hudner;* General Counsel Judith Leonard; 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 10:03 a.m. and reviewed the agenda. Due to a lack of quorum, the Committee will subsequently be asked to vote by email ballot on the following action items: approval of (i) the May 2017 minutes, (ii) the proposed disqualified persons list for 2018, (iii) the proposed 2018 decision making levels, (iv) the development of a potential modification to the Trust compensation approach, and (v) the proposed process for determining market comparables for 2018.

CALENDAR YEAR 2018 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 will review in January.

2018 List of Disqualified Person Positions

Chief of Staff to the Secretary and Associate Director, Office of Human Resources, Greg Bettwy reviewed the materials provided to support the Committee’s annual decision on disqualified persons. The Office of Human resources applied the following facts and circumstances test to determine if other positions should be included: (1) compensation is based primarily on revenues derived from activities of the organization, (2) has or shares authority to control a substantial portion of the organization’s capital expenditure, operating budget, or compensation for employees, or (3) manages a discrete portion or activity that represents a substantial portion of the activities, assets, income or expenditures compared to the organization as a whole. Based on the Smithsonian management’s recommendation, the Committee agreed that the list of disqualified persons positions for 2018 should remain the same as the list from 2017.

**Participation by telephone.*

2018 Decision-Making Levels

Mr. Fahey reminded the Committee that in 2008 the Board reviewed compensation for more than 200 individual positions. In order to allow the Committee and the Board to focus their attention on the top-tier compensation decisions, criteria have now been established to create decision-making levels that determine the positions that come to the Secretary, the Committee, and the Board for review and compensation decisions.

Mr. Bettwy explained that the three levels identified include the Secretary with approximately 230 positions to review, the Committee with approximately 33 positions to review, and the Board with approximately 10 positions to review.

The compensation thresholds recommended remain unchanged from last year. It is recommended that the Board review the Secretary, trust-position direct reports to the Secretary, and other high-impact trust positions. It is recommended that the Committee review all trust-disqualified-person positions, all trust positions with a proposed 2018 salary above \$275,000, and all trust positions with a proposed 2018 total compensation above \$300,000. The Secretary, it is recommended, will review all executive positions. The Committee agreed that this approach will allow the Committee and Board to focus on the positions needing the highest scrutiny in compensation review.

2018 Updated Compensation Philosophies

Mr. Fahey introduced the topic of updating the compensation philosophy for trust positions to reflect the changing market conditions. In 2008, the Committee agreed to a set of criteria to determine if a trust executive position should be paid according to the federal scale or paid according to market. The Secretary was given the flexibility to request re-evaluation of the designation of positions if conditions merited. At the May 2017 meeting of the Compensation and Human Resources Committee, the Secretary asked for seven trust positions to be re-evaluated. The Committee authorized Jim Hudner of Pearl Meyer, the Board's independent compensation consultant, to review whether the seven trust positions should be paid according to a federal or market-based scale. As the consultant began that review, it became apparent that the overall compensation model could benefit from a re-evaluation, particularly given the changes that had occurred in the federal employment sector. Specifically, certain federal agencies have more flexibility in compensation in order to recruit and retain specific skill sets that are highly competitive in the private sector.

Pearl Meyer recommended that the Smithsonian explore a third compensation category that utilizes a hybrid approach for those positions that have duties found both in and out of the federal sector in order to allow for greater flexibility in the compensation of these positions.

The Committee agreed that the consultant should further investigate this hybrid approach for a select number of trust positions. To assist the compensation consultant in learning more about the Federal system, the Office of Human Resources could provide information and data to the compensation consultant, but the final analysis would be done by the consultant and provided

to the Committee for final decision. The compensation approach to the federal positions will remain unchanged.

2018 Comparable Process

Mr. Fahey reminded the Committee that it engaged Pearl Meyer in late 2015, and since then the consultant has fine-tuned the established comparables approach as approved by the Committee. The consultant will price out 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. As the full pricing analysis of all positions was accomplished last year, 2018 is an aging year. Mr. Hudner briefed the Committee on the firm's approach to benchmarking data for targeted labor markets based on Form 990 filings and published compensation surveys, which will remain similar to past benchmarking approaches.

Committee Charter Review

Next, Mr. Fahey reminded the Committee that it is required to review and assess at least annually the adequacy of the charter and evaluate its own performance with respect to its requirements. The Committee agreed no changes were needed since the most recent update, which was approved by the full Board in January 2016.

Investment Incentive Payouts

The Committee reviewed preliminary data for the investment incentive payout for the annual performance period ending June 30, 2017. Mr. Bettwy reminded the Committee that the investments incentive program includes both a quantitative and a qualitative component. Preliminary data show the Smithsonian's annual portfolio return was 14.0%, which was 4.5% greater than the benchmark return of 9.5%. The data also show a three-year portfolio return of 5.8%, which was 3.3% greater than the benchmark return of 2.5%. Under Secretary for Finance & Administration/Chief Financial Officer Al Horvath reviewed preliminary estimates of maximum total cash levels for certain executives. Mr. Horvath noted the trend over the past six year allows for variable pay over the years as tied to performance. 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 2018.

EXECUTIVE SESSION

The Committee moved to an Executive Session at approximately 10:48 a.m.

ADJOURNMENT

The meeting was adjourned at approximately 10:51 a.m.

EMAIL BALLOT: MOTIONS FROM THE SEPTEMBER 20, 2017 COMMITTEE MEETING

The Committee conducted business via email ballot completed on September 21, 2017. Upon motion duly made and seconded, the following motions were approved by the Committee:

VOTED that the Compensation and Human Resources Committee approves the minutes from their meeting of May 16, 2017.

VOTED that the Compensation and Human Resources Committee adopts the proposed 2018 list of disqualified persons.

VOTED that the Compensation and Human Resources Committee adopts the 2018 decision making levels.

VOTED that the Compensation and Human Resources Committee approves the development of a proposed modification to the current Trust compensation approach.

VOTED that the Compensation and Human Resources Committee adopts the proposed method for determining comparables for the 2018 executive compensation process.

EMAIL BALLOT: AWARD RECOMMENDATION FOR JULIAN RABY

The Committee conducted business via email ballot completed on December 19, 2017, approving an early performance award for departing executive Julian Raby, the Dame Jillian Sackler Director of the Freer-Sackler Galleries of Art. Executives at the Smithsonian receive annual performance awards based on the executive compensation cycle. Executives who depart prior to the performance award payout are eligible to receive performance awards should their performance merit such recognition.

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

VOTED that the Compensation and Human Resources Committee approve the recommended award for Julian Raby, effective December 29, 2017.

Respectfully submitted,

John Fahey
Chair