

MINUTES OF THE SEPTEMBER 18, 2018, 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, 2018, at the Smithsonian Castle in Washington, D.C. Participating were Committee Chair John Fahey, and Committee members Senator John Boozman,* Ambassador Barbara M. Barrett, Michael Govan,* and David Rubenstein.*

Also present by invitation of the Committee were Secretary David Skorton, Chief of Staff to the Secretary Greg Bettwy, Deputy Chief of Staff to the Regents Kate Forester, Special Assistant to the Regents Mallory Gianola (recorder), Inspector General Cathy Helm,* Under Secretary for Finance and Administration/Chief Operating Officer Albert Horvath, 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, and Director of the Office of Human Resources Brenda Richardson Malone.

CALL TO ORDER AND AGENDA REVIEW

Committee Chair John Fahey called the meeting to order at 1:58 p.m. and reviewed the agenda.

APPROVAL OF MINUTES

Upon motion duly made and seconded, the Committee approved the draft minutes of the September 20, 2017, and May 16, 2018, meetings without modification.

CALENDAR YEAR 2019 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.

2019 List of Disqualified Person Positions

Mr. Fahey reviewed the materials provided to support the Committee’s annual decision on disqualified persons. He presented the list of disqualified persons, which was updated to reflect the Secretary’s reorganization of senior management in February 2018, and the impacts 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 2019 list of disqualified person positions.

2019 Decision-Making Levels

Mr. Fahey reminded the Committee about the set of criteria that distinguishes compensation decisions made by the Regents and those made by the Secretary. Based on 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 2019 total compensation above \$300,000.

The Committee agreed with management's recommendation that the decision-making levels remain unchanged, which will result in 36 positions presented to the Regents for review in January 2019.

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

VOTED that the Compensation and Human Resources Committee approves the 2019 decision-making levels.

2019 Updated Compensation Philosophies

Next, Mr. Fahey briefed the Committee on the modified compensation philosophy for Trust executive positions. At the May 16, 2018 meeting, the Committee approved the addition of an Augmented Pay Scale for 19 Trust executive positions. As Mr. Fahey explained, the new Augmented category applies to positions that exist in the Federal labor market but that are differentiated on the basis of diverse, highly specialized, complex roles and responsibilities that are unique to the Smithsonian. The executive Trust compensation philosophy was revised to include the approved Augmented "hybrid" compensation approach.

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

VOTED that the Compensation and Human Resources Committee approves the 2019 updated compensation philosophy.

2019 Comparable Process

Pearl Meyer Consultant Jim Hudner briefed the Committee on the firm's recommended approach for determining comparable compensation for Trust executive positions. Mr. Hudner provided an overview of the parameters for assessing the competitiveness and reasonableness of Smithsonian compensation levels, and recommended approval of the comparable process to be used for 2019. The Committee addressed concerns regarding analysis of one of the peer groups to be used in benchmarking.

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

VOTED that the Compensation and Human Resources Committee approves the 2019 comparable process.

Amendment to the Investment Incentive Compensation Plan

At the May 2018 meeting of the Compensation and Human Resources Committee, the Committee approved the addition of the Director of Investment Operations to the Office of Investments Senior Level Incentive Program. Management was directed to work with the Board's independent compensation consultant to establish the specific approach along with a percentage cap on the amount of incentive compensation for which the position will become eligible. Mr. Hudner reviewed the recommended incentive plan design framework and maximum incentive opportunity proposed for the Director of Investment Operations, based on reported market data and in consideration of the position's impact on the Investment function.

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

VOTED that the Compensation and Human Resources Committee approves the amendment to the investment incentive compensation plan.

Preliminary Investment Incentive Payouts

The Committee reviewed preliminary data for the investment incentive payout for the annual performance period ending June 30, 2018. Under Secretary for Finance and Administration/Chief Operating Officer Al Horvath reported that the Office of Investments and the Smithsonian endowment saw a successful year. Preliminary data show the Institution's annual portfolio return was 10.5%, which was 2.4% greater than the benchmark return of 8.1%. The preliminary data also show a three-year portfolio return of 7.3%, which was 2.2% greater than the benchmark return of 5.1%. Mr. Horvath reviewed preliminary estimates of maximum total cash levels for certain executives, and noted the projected potential payouts were less than the 2017 performance year. All of 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 2019.

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

VOTED that the Compensation and Human Resources Committee approves the preliminary investment incentive payouts.

Committee Charter Review

The Committee performed a provision-by-provision review of its Charter per its mandate to annually review and assess the Charter and evaluate its own performance with respect to the Charter. No modifications were proposed.

EXECUTIVE SESSION

The Committee moved to an Executive Session at approximately 2:18 p.m.

ADJOURNMENT

With no further business to consider, the meeting was adjourned at approximately 2:22 p.m.

Respectfully submitted,

John Fahey
Chair