

***Board of Directors of the John D. and Catherine T. MacArthur Foundation***

***CHARTER OF THE BUDGET AND COMPENSATION COMMITTEE***

**Purpose, Responsibility, and Authority**

The by-laws of the Foundation establish a number of standing committees, including the Budget and Compensation Committee. The primary responsibility of the Committee is to oversee (i) the annual budget and spending of the Foundation (including spending for investment management) and (ii) the material human resource, compensation, and benefit policies of the Foundation. In that regard, the Committee will also have the authority and responsibility to:

- Review in accordance with a time table established by the Committee in consultation with the President, the proposed annual budgets (Grant, Administrative and Capital) prepared by management and consider the appropriate allocations and priorities in the Grant Budget among the programs of the Foundation;
- Recommend to the Board action to be taken by the Board regarding approval of the budgets and any carryover to succeeding budgets;
- Review proposed spending in light of the Spending Guidelines (attached), make the determinations and recommendations described in the Spending Guidelines, and recommend to the Board any changes to the Spending Guidelines;
- Determine, review and approve the compensation arrangements for the President of the Foundation taking into account market conditions, peer practice, performance, and such other matters as the Committee may deem relevant;
- Review any proposed changes to the compensation and benefits of Board members in their capacity as directors taking into account recruitment and retention needs, peer practice, administrative efficiency, and such other factors as the Committee may deem relevant and make such recommendations as the Committee deems appropriate to the Board with respect to such matters;
- Consult with the President regarding annual compensation increases for senior officers;
- Review the determination by management of the proposed annual salary pool and increases thereto for the staff;
- Review and approve significant changes to the Foundation's benefit plans and policies; and
- At the request of the President, consider other material matters relating to human resource policies and practices.

**Membership**

The Committee shall consist of four or more directors appointed by the Board. All members shall be entitled to be indemnified for their service on the Committee in accordance with the provisions of the resolution dated July 8, 1980.

**Meetings**

The Committee will meet no less than three times a year. The Committee may meet by telephone or videoconference. A quorum for the meeting shall consist of three members. The Chair of the Committee as selected by the Board shall preside at the meeting. In the absence of the Chair, the Chair of the Board shall designate a director to serve as interim chair, which may be the Chair of the Board.

**Board Reports**

The Committee will report to the Board on its meetings and will keep written meeting minutes.

## ***Spending Guidelines***

WHEREAS, the Spending Policy Resolution dated March 11, 1999 called for a review of the spending guidelines within five years; and

WHEREAS, the Board has reviewed and discussed the Discussion Paper attached to Jonathan Fanton's Memorandum to the Board dated June 4, 2003, and the principles articulated therein (the "Principles") (a copy of such Principles being attached hereto); and

WHEREAS, the Board has determined, based on its review, that the Foundation's spending guidelines should be revised as reflected therein, based on the Principles.

NOW, THEREFORE, BE IT RESOLVED, that, in determining the Foundation's spending on an annual basis, the Board shall be guided by the following provisions:

### *Administrative, Capital and Matching Gifts:*

Administrative, capital and matching gift budgets will be determined annually based on guidelines established by the Board's Budget and Compensation Committee (the "Committee"). Unspent administrative and capital amounts will not automatically carry over. The Committee may, however, approve the carry over of unspent amounts to be used for other administrative or capital purposes either in the current year or subsequent years.

### *Program-Related Investments:*

Program-related investments (PRI) will continue to be maintained in a separate portfolio and new investments will be funded from portfolio income and PRI returns after reaching the target portfolio size (established at \$200 million).

### *Investment Management Costs:*

Investment management costs will be netted out of investment returns. These costs (exclusive of those expenses included in the administrative budget) will be forecasted and disclosed to the Committee during budget deliberations each year.

*Grants:* Guidelines for determining the annual grant budget are as follows:

### *Base Grant Budget*

- The Grant Budget will be set at \$180 million in 2004 and \$175 million in 2005. It will remain at that level until (i) asset growth allows an increase or (ii) circumstances require the budget to be reduced based on the provisions outlined below.

### *Spending Ceiling, Spending Growth and Grant Budget Reserve*

- If Total Spending exceeds 6% of the Average Market Value for three consecutive years, the Committee will develop a plan to bring Total Spending down to 6% or below within two years. Total Spending includes all grants, exempt administrative expenses and matching gifts. Average Market Value means the 12-quarter trailing average of the market value of the Foundation's investment assets used in calculating the distribution requirement.<sup>1</sup>
- If projected Total Spending for the next budget year would be less than 5% of the Average Market Value, the Grant Budget for such year may be increased by up to 3%. The

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<sup>1</sup> Because the budget guidelines are prepared during the spring of each year for the following year, the 12-quarter trailing average that will be used will be for the preceding three years. For example, the average market value ("AMV") for the 12-quarters ending December 31, 2002, will be used for the 2004 calculation. The AMV will be recalculated for the 12 quarters ending June 30 of the current year and may be adjusted if the calculation results in a material difference.

difference between projected Total Spending (including the Grant Budget growth) and 5% of the Average Market Value may be used to restore any erosion in lost purchasing power of the Foundation's assets or deemed to fund a Grant Budget Reserve as the Committee shall recommend. The Grant Budget Reserve will be available to support the Grant Budget in future years when projected Total Spending is expected to exceed 5% of the Average Market Value.

Annual Committee Review

- The Committee will review the proposed Grant Budget annually in light of the Principles and Spending Guidelines and bring to the attention of the Board any issues arising from its review and such recommendations as the Committee believes are prudent given the circumstances.

Other Grant Budget Provisions

- The President will recommend a percentage of the base budget amount (with a target of 10%) that will not be allocated to specific program areas. Unallocated budget amounts may reside in a central unallocated fund or in individual program unallocated funds. The amount of the central unallocated fund will be determined each year in the budget process.
- At the discretion of the Committee, unspent grant budget funds may be used as follows: (i) to restore the lost purchasing power of the assets; (ii) carried over to the following budget year or (iii) deemed to fund the Grant Budget Reserve. If carried over, these amounts will be tracked separately and will not affect the base budget calculation. Funds may be permitted to be carried to the following budget year if management demonstrates that (i) the subject matter on which the funds are to be spent is well defined and has been approved for spending, but that for timing reasons could not be completed in the prior budget year or (ii) the subject matter represents a new opportunity and the expenditure of funds would not change the base budget for the particular program.

and, be it

FURTHER RESOLVED, that the Spending Policy Resolution adopted March 11, 1999, is hereby superseded in its entirety and replaced by this resolution; and, be it,

FURTHER RESOLVED, that these spending guidelines shall be reviewed no later than five years from the adoption of this resolution.

**EXCERPT FROM  
THE SPENDING GUIDELINES  
ATTACHED TO MEMORANDUM TO THE BOARD  
DATED JUNE 4, 2003, FROM JONATHAN F. FANTON**

**Part IV: Proposed Principles**

In recommending changes to the spending guidelines, it is important to first articulate several key philosophical principles that underlie the revised guidelines (in no order of priority):

- The Foundation should be a predictable source of funds for its grantees to the extent possible.
- Guidelines should be designed to avoid abrupt declines or increases in spending.
- The Foundation should not lightly decide to erode the purchasing power of its assets, but may do so if the Board concludes that such spending is prudent. In making its determination that the Foundation may spend more than the total return of the assets after inflation, the Board should be guided by the following criteria (the "Endowment Spending Criteria): (i) the spending is necessary to address an urgent problem(s), (ii) attention to the problem is time sensitive, (iii) there is a reasonable prospect that timely intervention can make a difference, (iv) the Foundation has a comparative advantage to address the problem, or (v) funding from other sources is limited but might be catalyzed by the Foundation's leadership.
- The Foundation should strive to maintain a sufficient asset size to be effective in the fields in which it has chosen to work.
- In periods of exceptional investment returns, the Foundation should develop a plan to restore erosion of assets caused by spending more than the total return of the assets after inflation and then reserve amounts to support spending in periods when assets decline or when special grantmaking opportunities arise.
- Spending guidelines should consider but not be driven strictly by the annual distribution requirement.