

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA
OFFICE OF THE SENIOR VICE PRESIDENT-COMPLIANCE AND AUDIT



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Sheryl Vacca
CHIEF COMPLIANCE AND AUDIT OFFICER

October 30, 2008

Via Email

Charles Schwartz
Professor Emeritus
University of California, Berkeley
Schwartz@physics.berkeley.edu

Re: Selection of General Investment Consultant for The Regents (I-08-072)

Dear Professor Schwartz:

I am writing in response to your October 2, 2008 communication to Senior Vice President Sheryl Vacca which described your concerns with the process involved in the choosing of a general investment consultant for The Regents of the University of California. We want to provide you with a brief status report as further research is necessary to fully address the questions you raised in the communication to SVP Vacca. The issues you identified are as follows:

- Is there a conflict of interest or appearance of a conflict of interest in awarding to Mercer the position of General Investment Consultant to The Regents since Mercer has been involved in the design of the Annual Incentive Program (AIP) for the officers and staff of the Office of the Treasurer and involved in the University's review and restructuring of executive compensation policies and practices?
- Did The Regents violate the state's Open Meeting Law when they took action on the appointment of Mercer as the General Investment Consultant in a closed session of the September 17, 2008 meeting of The Regents Committee on Investments?

We are consulting with the Office of General Counsel (OGC) for assistance as both issues have legal components to them. We have learned that in June 2008, the Office of the Treasurer of The Regents appropriately sought legal advice from OGC after Mercer Investment Consulting (Mercer IC) became a finalist in the selection process. OGC was informed of the prior University relationship of Mercer Human Resources Consulting (Mercer HR) and the proposed new relationship with Mercer IC. While we are not at liberty to share legal advice, it appears preliminarily that appropriate action was taken. We have some follow-up review still to undertake and will get back to you after it is completed.

As to your question regarding the Open Meeting Act, we are awaiting review by the Office of General Counsel.

We appreciate your understanding and patience as we pursue our research into your questions.

Sincerely,

A handwritten signature in black ink, appearing to read "John Lohse". The signature is written in a cursive style with a large initial "J".

John Lohse

cc: SVP Vacca
Deputy Compliance Officer Hilliard
University Counsel Thomas