

# MERCER



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July 7, 2008

Regent Paul Wachter  
Chair - Regents Committee on Investments  
c/o Main Street Advisors  
3110 Main Street  
Santa Monica, CA 90405

**Subject: Mercer Investment Consulting – Resolution of Potential Conflicts**

Dear Regent Wachter:

Mercer Investment Consulting, Inc. ("Mercer IC") is under consideration for the role of General Investment Consultant to the Board of Regents (the "Regents") of the University of California (the "University"). The proposed lead consultant is from the Los Angeles office of Mercer IC.

The Los Angeles office of Mercer IC and the San Francisco office of the Mercer IC's sister company, Mercer (US) Inc. ("Mercer") also assist the Regents with aspects of the administration of the Office of the Treasurer's Annual Incentive Plan ("AIP") for members of the Office of the Treasurer's investment staff. In particular, Mercer IC has for the last six years advised the Regents on the investment aspects of the AIP, including appropriate adjustments to the award calculation pay-off function to reflect changes in the portfolio structure (such as the introduction of new mandates), as well as the proportion invested in passive vehicles. Mercer IC has also advised on the appropriateness of benchmarks used for the various new and existing asset classes.

We believe the following two actions would reduce or eliminate any potential conflicts of interest created by the existing and possible future roles of Mercer IC.

First, we intend to move the investment-related consulting services regarding the AIP to personnel located in Mercer IC's Boston office. These personnel are not supervised by the consultants who would provide the General Investment Consulting services, and they are not compensated based upon the revenues generated from the General Investment Consulting services. In addition, the consultants responsible for providing the General Investment Consulting services will have no involvement or responsibility for any analysis, recommendations, or decisions regarding the AIP. Finally, we would attest to the fact that these two teams will not communicate with each other with respect to their services related to the University for the AIP.

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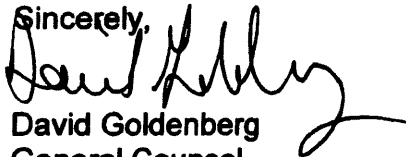
If these actions do not adequately address the Regents' concerns about potential conflicts of interest, Mercer IC is willing to resign the investment consulting activity with respect to the AIP and assist the Regents in finding an alternate firm to provide similar services.

Second, with respect to functions that Mercer performs for the AIP, in addition to advising on appropriate compensation structures to attract and retain the appropriate staff for the Office of the Treasurer's investment program, the Executive Compensation business of Mercer calculates the AIP awards using performance information provided by State Street Bank, the University's investment custodian and record-keeper. These activities do not use any investment consulting services from Mercer IC. Effective in 2007, those award calculations have been moved from Mercer's San Francisco office to Mercer's Washington DC office.

Should the Regents desire to have an unaffiliated firm provide the award calculations, we can assist in the transition to a new accounting or audit firm selected by UC.

We believe that these two actions separating the personnel of Mercer IC performing the General Investment Consulting services from the personnel of Mercer and Mercer IC performing other services for the University adequately address the potential for conflict.

Sincerely,



David Goldenberg  
General Counsel

Copy:  
Marie Berggren – University of California  
Bob Miller - Mercer