

May 28, 2010

Proposal to Provide Investment Consulting Services City of Fort Lauderdale Police & Firefighters' Retirement System

MERCER



MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Consulting. Outsourcing. Investments.

A. Title Page

Request for Proposal Subject:

City of Fort Lauderdale Police and Firefighters' Retirement System RFP for independent consulting services

Firm Name: Mercer Investment Consulting, Inc.

Address: 3560 Lenox Road, Suite 2400, Atlanta, GA 30326

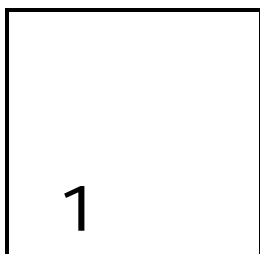
Telephone Number: 404 442 3252

Contact Person: Jeffrey C. Boucek, CFA

Date: May 28, 2010

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C. Organization

1. Describe your firm's strengths, highlighting the aspects of your service that make you unique from your competition. Which investment consulting services are the firm's specialties or areas of greatest expertise?

Our specialty is working with institutional investors including public state and local governments, private corporations, foundations and endowments. We are known in the industry as a large nationally-based firm with deep resources and expertise. In particular, we believe our resources dedicated to asset allocation and manager research/search is an advantage compared to other investment advisors.

Mercer has extensive experience providing comprehensive consulting to public defined benefit plan sponsors. We work with some of the largest public plans across the globe. Mercer leverages our work experience and marketplace presence to be thought leaders in the industry and deliver the best customized investment consulting services possible. Over the last three years, we have witnessed significant growth in our public plan business and partner with a number of state and city retirement systems. In the US, Mercer has 27 public defined benefit retainer clients with over \$524 billion in assets under advisement as of December 31, 2009.

Competitive advantages

One of Mercer's greatest strengths is the many specialist resources we offer to clients. The range and complexity of issues facing institutional investors are much different than they were just five years ago. Plans are under increasing scrutiny by regulatory agencies, governmental bodies, the legal community, the press and participants. More than ever, clients similar to the Pension Board for the City of Fort Lauderdale Police & Firefighters' Retirement System ("the Board") are asking Mercer very specific and complex questions that require a "subject matter expert". Unique to Mercer are the many specialist resources we have to assist clients with these complex questions. We believe the Board will benefit from the knowledge and advice each specialist group provides in areas such as:

Strategic Asset Allocation – Our Financial Strategy Group (FSG) helps public defined benefit clients meet their needs for integrated investment and actuarial advice to manage the financial risks of their pension plans. Understanding contribution volatility and funded status puts an increased emphasis on balancing costs and risks for public defined benefit plan sponsors. Funding reform, accounting transparency and the continuing sponsorship of frozen or closed DB plans puts an increased emphasis on balancing costs and risks for DB plan sponsors.

Manager Research and Selection – We devote 10-15% of our annual revenue to technology and investment research on asset managers and the capital markets, to help support our recommendations to our clients. As of December 31, 2009, more than 80 full-time Mercer manager research professionals investigate investment managers to identify strategies that we believe have the potential to offer superior risk-adjusted performance to our clients. This includes over 35 full-time alternative researchers who focus on alternative strategies such as private equity, hedge fund, real estate, and commodities.

Thought Leadership – We keep our clients apprised of issues within the capital markets, both through on-going interactions and with white papers, perspectives and surveys throughout the year. Mercer's US Investment Policy Committee is composed of senior consultants who discover opportunities to enhance our thought leadership and to examine how to improve client results. For an introduction to our positions on relevant issues, please access the following sites: www.mercer.com/usdc and www.mercer.com/pensionrisk.

Investment Operation Advice – Our Mercer Sentinel® Group is a highly specialized research unit responsible for advice pertaining to investment operations and administration in order to help clients minimize risk and reduce costs. Services include trustee/custodian evaluations, securities lending, master trust design and implementation, fund accounting, foreign exchange services, fee benchmarking, trade cost analysis, commission recapture, and transition management.

Client Service

While specialist resources are a key competitive advantage for Mercer, we realize the foundation of any consulting relationship is client service. We are positively differentiated in terms of our:

Quality Assurance – We ensure the quality and accuracy of our consulting advice and services through a formal system of professional standards. All work that Mercer performs for clients is peer reviewed by a second senior consultant to help ensure its accuracy and appropriateness. During the first year of our relationship we will conduct a client satisfaction survey with the Board to determine if we are meeting your goals and how to improve our services

Timely services – We are keenly aware that efficient management of any project means making information available on a timely basis. We are committed to the punctual delivery of our services and draw on a wealth of internal resources to accomplish this.

Ownership Model – Our global ownership model help ensures that we have diversified revenue sources around the world ensuring a focused, consistent business strategy. We are engaged in a process of continuous reinvestment to ensure we maintain our strategic position as thought leaders in the industry and to help ensure the highest quality of investment consulting advice for our clients. Unlike smaller boutique firms, we do not encounter succession planning, corporate action and staff instability issues. We have detailed succession plans, a stable organizational structure and a deep pool of consultant talent.

Focusing on Fiduciary Obligations – We understand that the fiduciary environment has changed drastically over the last few years. As a registered investment advisor Mercer is a fiduciary with respect to the investment advice we provide, which we will acknowledge in writing.

2. Summarize your organization's long-term strategy for business development.

In today's rapidly evolving global investment environment, we believe organizations must be vibrant and growth-oriented to attract and retain the kind of professionals who can provide the highest quality investment advice. To this end, Mercer is committed to developing our business in a manner that expands our intellectual capital while maintaining superior service to our clients. Our local delivery structure, coupled with our worldwide reach, enables our consultants to work closely and efficiently with clients and leverage a depth and breadth of services to deliver a full range of investment solutions.

Our organizational goals and business objectives are:

- Providing our clients with value-added services and integrated global coverage
- Increasing market share while maintaining profit margins and product and service quality
- Increasing productivity through systems enhancements and personnel training programs
- Being the best place for an investment consultant to work, by
 - Providing the best mentoring and training for consultants seeking to become qualified to serve as lead consultants to major institutional investors
 - Providing consultants the best intellectual capital, technology, tools and information.

Mercer pursues growth targets through a combination of adding new clients and obtaining improvements in commercial terms from existing retainer clients who have experienced the value we add.

3. What percentage of your annual budget is allocated toward research and development?

Mercer's investment consulting business invests approximately 10-15% of its annual revenue in research and technology. Mercer has made a major commitment to technology to support consultants in meeting client needs. The custom computer-based systems used by Mercer have been developed in-house or in conjunction with industry partners. Our systems undergo continual assessment and enhancement to help meet new client needs and provide increased functionality.

4. Does your organization anticipate any changes in ownership or organizational structure?

There have been no changes in the ownership of Mercer's investment consulting business since its inception. There are currently no plans for Mercer to undergo any changes in ownership in the near future nor do we anticipate any changes in our organizational structure.

5. Provide information that documents your firm's qualifications with respect to its independence, ability, capacity, skill, financial strength and number of years your firm has provided pension fund consulting services to public pension plans.

Mercer is a global provider of investment consulting services, and offers customized guidance at each stage of the investment decision, risk management, and investment

monitoring process. We have been dedicated to meeting clients' needs for more than 35 years, and work with the fiduciaries of pension funds, foundations, endowments and other investors in more than 40 countries.

Worldwide, Mercer's investment consulting business has over 1,000 employees located in over 50 offices in Asia, Australia, Canada, Europe, Latin America, New Zealand, the UK and US (as of December 31, 2009).

In the US we have over 200 employees in offices in:

Atlanta, GA	Boston, MA	Chicago, IL
Dallas, TX	Los Angeles, CA	New York, NY
Philadelphia, PA	Princeton, NJ	Richmond, VA
San Francisco, CA	Seattle, WA	Washington, DC

Our size and global reach permit us to devote extensive resources to each client and provide in-depth knowledge of investment managers globally. The client decision-making process is locally based, but relies on regional and global coordination in areas such as asset/liability modeling, investment policy, manager research/search, and performance evaluation. Consultants are supported by research and systems staff based primarily in Chicago, London, Melbourne, Sydney, Tokyo, Toronto, and Wellington.

Unique to Mercer is the Public Sector Network, comprising approximately 80 professionals, including investment consultants, actuaries, attorneys, communication specialists, and HR consultants from both Mercer's human resources and investment consulting businesses. Members continually share and discuss employee benefits issues through this electronic forum. This medium lets our consultants instantly access and pool Mercer's vast resources to better address and serve our public sector clients' needs effectively and efficiently.

Mercer's human resources and investment consulting businesses have made a significant commitment to public sector consulting as evidenced by our involvement and participation in various public sector organizations. We will continue our membership and active participation in the following organizations servicing the public sector:

- Governmental Finance Officers Association
- International Foundation of Employee Benefit Plans
- National Association of Government Deferred Compensation Administrators
- National Association of Public Pension Attorneys
- National Association of State Retirement Administrators
- National Conference on Public Employee Retirement Systems
- National Council on Teacher Retirement
- National Pre-retirement Education Association
- Numerous statewide organizations for public retirement systems
- National Association of State Treasurers

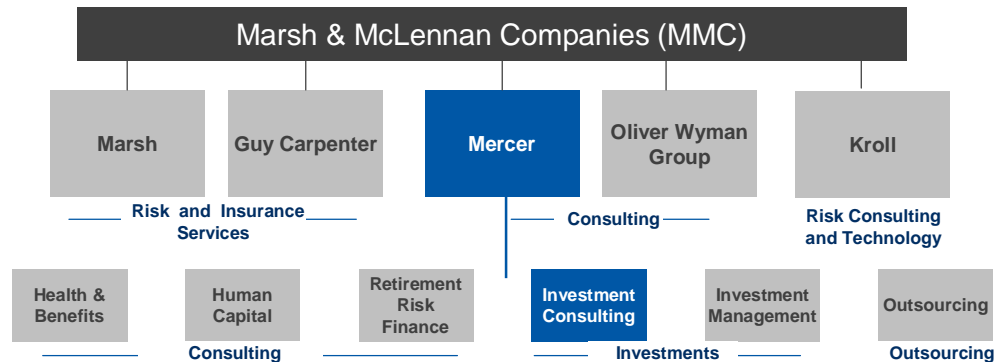
Ownership

Throughout most of the world, Mercer's investment consulting business is an autonomous unit within Mercer LLC, a wholly-owned subsidiary of Marsh & McLennan Companies, Inc. (MMC). In the US, the investment consulting business is operated through Mercer Investment Consulting, Inc., a wholly-owned subsidiary of Mercer (US) Inc., the US operating unit of Mercer LLC.

Mercer is one of the global leaders for trusted HR and related financial advice, products, and services. The company has specialist expertise in all areas of human resource consulting, including compensation, employee benefits, communication, and human capital strategy.

MMC is a global professional services firm with annual revenues of approximately \$11 billion. As of December 31, 2009, approximately 54,000 employees provide analysis, advice, and transactional capabilities to clients in over 100 countries. It is the parent company of Marsh, the world's leading risk and insurance services firm; Guy Carpenter, the world's leading reinsurance intermediary; Kroll, the world's leading risk consulting company; Mercer, a major global provider of human resource and investment consulting services; and, Oliver Wyman, a leading provider of specialty consulting. Its stock (ticker symbol: MMC) is listed on the New York, Chicago, Pacific, and London stock exchanges. MMC's website address is www.mmc.com.

Below is a diagram of MMC's operational structure for the US:



Financial Strength

One of Mercer's key competitive advantages is our financial strength and that of our ultimate parent, MMC (a large, profitable Fortune 500® company), which permits us to generously invest in our people, systems, and processes to create sustained value for our clients. Mercer's own revenue is also a major advantage over our competitors, permitting us to make substantial investments in developing intellectual capital.

In 2009, the global revenues of Mercer (which includes Mercer's investment consulting business) were approximately \$3.2 billion.

6. Is providing investment advisory services your sole line of business? If not, describe what other services your firm provides and show the percentages of your organization's revenues attributable to the investment advisory service as well as the other lines of services.

Investment advisory services is our primary business. Below is a table that shows the percentage of Mercer's investment consulting business revenue derived from our different offerings for the calendar year 2009.

Global Revenue Source	2009
Consulting with Plan Sponsors	90%
Money Management Activities	0%
Services to Money Managers	0%
Other	10%
Total	100%

* Other includes revenue from the sale and/or subscription of software, databases and analytical tools.

7. Are you registered with the S.E.C.?

Mercer Investment Consulting, Inc. is a registered investment adviser with the Securities and Exchange Commission under the Investment Advisers Act of 1940 (SEC File Number: 801-9613).

8. Are you a member of the Association for Investment Management and Research (AIMR)?

Mercer is a member of the CFA Institute.

9. Are you a member of the Florida Public Pension Trustees' Association (FPPTA) or the International Foundation of Employee Benefit Plans (IFEBP)?

Mercer is a member of the International Foundation of Employee Benefit Plans.

10. Is your firm registered with the Florida Secretary of State to do business in the state? Please provide your registration number.

Mercer is registered with the Florida Secretary of State. Our registration number is 851221.

11. Is the firm or any of its principals or employees currently engaged in any litigation with the SEC, current or former client or employee or any other person or organization related to your business activities?

In the ordinary course of business, Mercer is involved with litigation and other legal proceedings, investigations and inquiries, some of which are conducted on an industry-wide basis. Based on information currently available, the outcomes of currently pending litigation, investigations and inquiries are not expected to have any material adverse effect upon Mercer or its ability to service its clients in the ordinary course. Details

regarding certain outstanding legal proceedings pertaining to Mercer and its affiliates are disclosed in the public [Securities and Exchange Commission filings of Marsh & McLennan Companies, Inc.](#), Mercer's ultimate parent company.

12. Has the firm been fired, sanctioned or otherwise disciplined by the SEC or any other regulatory agency?

Beginning in 2004, the SEC examined the practices, compensation arrangements and disclosures of consultants that provide services to sponsors of pension plans or other market participants, including, among other things, practices with respect to advice regarding the selection of investment advisors to manage plan assets. On September 19, 2007, we received a letter from the SEC indicating that it had completed the investigation of Mercer and was not recommending any enforcement action.

In January 2006, Mercer received a subpoena from the US Department of Labor (DOL) requesting information related to our business. We promptly provided the DOL with an overview of our business model and activities, fully cooperating with their examination. On January 28, 2008 we received notice that the DOL had finished its review and concluded that no further action was contemplated.

13. Has the firm or any of its principals or employees been convicted of any crimes in Florida or any other State?

No.

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D. Clients and References

1. Please provide a summary of your firm's total clients and assets under investment consulting advisement. Indicate a breakdown by public pension funds, corporate pension funds, Taft Hartley funds, endowments and others. At a minimum, please include:

a. Total number of investment consulting clients

Plan Sponsor Type	Assets (\$ m)	Clients
Corporate	159,847	207
Public / Government	992,787	49
Union / Taft-Hartley	3,015	10
Non-Profit / Other	40,700	45
Total	\$1,196,349	311

b. Number of clients and assets by category

The table below shows the distribution of our retainer clients as of December 31, 2009.

Client Type	Under \$50m	\$50-100m	\$100-250m	\$250-500m	\$500m-\$1b	\$1-5b	Over \$5b	Total
Corporate DB	8	4	10	3	7	7	0	39
Corporate DC	14	13	30	19	13	18	3	110
Corporate DB & DC	3	2	13	10	14	8	2	52
Corporate Other (Insurance, Operating, etc.)			1		2	3		6
Public DB	1	3	1	3	4	2	8	22
Public DC		1	2	3	1	5	5	17
Public DB/DC			1	1		1	2	5
Public Other (529, Insurance, etc.)		1			1	1	2	5

Client Type	Under \$50m	\$50-100m	\$100-250m	\$250-500m	\$500m-\$1b	\$1-5b	Over \$5b	Total
Taft-Hartley	1	2	5	0	1	1	0	10
Non-Profit/Other	8	3	12	6	4	2	1	36
Endowment/Foundation	2	2	5	0	0	0	0	9

c. Fund size of average client

As of December 31, 2009 the average fund size of our retainer client is \$3.8 billion, the median fund size is \$285 million.

d. Representative client list

Below is a listing of Mercer's retainer clients as of December 31, 2009. The client list is comprised of all Mercer clients who have provided written consent to be included in our list. It is not known whether they approve or disapprove of our services.

AARP	ABX Air, Inc.
Activision Blizzard	AES Corporation
Alabama Children's Hospital Foundation	Alaska Trowel Trades Pension Fund
America Movil	Arizona State Retirement System
Appleton Papers	Autodesk, Inc.
Atlas Copco North America Inc.	Bangor Publishing
Avery Dennison Corporation	Black Hills Corporation
Bendix Commercial Vehicle Systems	Cardinal Trust and Investments
Brookhaven Memorial Hospital Medical Center	Chicago Public School Teachers' Pension & Retirement Fund
Cayman Islands Chamber of Commerce	City of El Paso Employees Pension Fund
Christian Schools International	City of Milwaukee ERS
City of Los Angeles	City of Pittsburgh
City of Pasadena Fire and Police Retirement System	Coats North America
City of Tampa General Employees' Retirement System	County of Los Angeles
College Savings Plans of Maryland	Darden Restaurants, Inc. Savings Plan
County of Orange	Diebold Inc.
Decurion Corporation, The	Esterline Technologies
Eastern Connecticut Health Network	Express Savings & Retirement Plan
Expedia, Inc.	Firemen's Annuity & Benefit Fund of Chicago
Fairfax County Police Retirement System	Government of Guam
First Horizon National Corporation	Halliburton

Gundersen Lutheran Medical Center, Inc.	Hayes Lemmerz International Inc.
Hard Rock Café	Huhtamaki Retirement Accrual Plan
Helena Chemical	Hunton & Williams LLP
Hunt Consolidated	Indiana Public Employees' Retirement Fund
Huntsville Hospital	Kellogg, Brown and Root, Inc.
Jackson Hospital	Lincoln Electric
Knoxville Utilities Board	Maryland Supplemental Retirement Supplemental Plans
Los Alamos / Lawrence Livermore	Methodist Hospitals, Inc.
Media General, Inc.	NCCI, Inc.
Michigan Education Association (MESSA)	Ohio Bureau of Workers Compensation
New York Metropolitan Transportation Authority	Otter Tail Corporation
Ohio Public Employees Retirement	Perdue Farms, Inc.
Pacific Life Insurance Company	PharMerica Corporation
Perini Corporation	Portland General Electric
Port of Seattle	Public Employee Retirement System of Mississippi
Potlatch Forest Products Corporation	Redlands
Quadion Corp.	Rich Products
Regional Transportation Authority	Sacramento Municipal Utility District
Sacramento County Employees' Retirement System	Siemens Corporation
Schewel Furniture	St. Joe Company, The
Sinsinawa Dominicans, Inc. and Mother Samuel Coughlin Charitable Trust and Dominican Outreach Foundation	State of California Public Employees' Retirement System (CalPERS)
Starwood Hotels & Resorts, Worldwide	State of Hawaii Deferred Compensation Plan
State of California Savings Plus Program	State of North Carolina
State of New Mexico Public Employees Retirement Association	Swedish Match North America
Sunoco	University of Kansas Hospital
Town of Norwood	Virginia College Savings Plan
Ventyx	Williams Sonoma, Inc.
West Virginia State Treasurer's Office	Ziegler Wealth Management
Wisconsin Masons' Pension Fund	

2. Provide a breakdown of clients gained and lost the past three years, including both fund size and type. Indicate reasons for any clients lost.

It is Mercer's policy not to disclose specific non-public information regarding clients. In the course of our business, consulting relationships have been terminated for a variety of reasons, such as merger, acquisition, or divestiture situations; changes in client business strategy; changes in our business strategy; or plan terminations. The following table provides the number of clients gained and lost and associated market value on a per year basis. Mercer has approximately 311 clients.

Year	Clients Lost	Dollar Amount (Millions)	Clients Gained	Dollar Amount (Millions)
2007	20	\$7,834	32	\$142,660
2008	19	\$33,296	33	\$328,460
2009	37	\$16,301	22	\$28,995

3. Provide a list of at least six public employee retirement systems (primarily retirement plans of similar size as ours) for which your firm currently provides evaluation services, including system name and approximate value of investment portfolio. Also provide the address, telephone number, name and title of person who may be contacted for reference. Please obtain prior authorization for us to contact each reference.

Client Name	Contact Name & Title	Address/Telephone Number
City of Tampa General Employees' Retirement Fund	Andrea Noriega, Supervisor	306 E. Jackson St., 7th Floor East, Tampa, FL 33602 813.274.8136
El Paso City Employees' Pension Fund	Robert B. Ash, Pension Administrator	2 Civic Center Plaza, El Paso, TX 79901-1196 915.541.4545
City of Pittsburgh Comprehensive Municipal Pension Trust Fund	Anthony J. Pokora, Assistant Director	414 Grant Street, Pittsburgh, PA 15219 412.255.2899
City of Milwaukee	Mr. Tom Rick, CIO	789 N. Water Street, #300 Milwaukee, WI 53202 414.286.5711
Public Employees' Retirement System of Mississippi	Lorrie Tingle, Chief Investment Officer	429 Mississippi Street Jackson, MS 39201 601.359.3589
Fairfax County Police	Robert Mears, Executive Director	10680 Main Street Suite 280 Fairfax, VA 22030 703.279.8255

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E. Professional Staff

1. **Please provide a detailed listing of your firm's professional staff by category including consultants and analysts.**

Mercer's investment consulting business has more than 1,000 employees worldwide as of December 31, 2009. In the US, Mercer employs 238 individuals in the categories shown below:

US investment consulting employees	
Consultants	101
Analysts	60
Manager research	28
Systems/analytics	24
Administrative	25
US total	238

2. **Provide the name(s) and locations of the individuals(s) who will be responsible for this account if your firm is awarded this contract. Provide a brief biography of each member of the team, including titles, functions, academic credentials, professional affiliations, relevant work experience, and number of years with your firm and any history of discipline from any regulatory agency.**

The team working with the Board will include experienced and senior lead consultants, supported by other consultants with specialist expertise in areas we anticipate will be of interest. We have used this type of team structure consistently with other clients for more than a decade, and have found it to be helpful in facilitating the delivery of value-added investment results and high quality service to these clients.

Jeff Boucek will be the lead consultant and **Keith Reynolds** will be the co-lead consultant for the Board. Together, this team will be the strategic investment consulting advisors and oversee the relationship. These professionals will have responsibility for the quality of investment consulting services and will be the day-to-day, "in-front" consultants to the Board. When expertise is required on certain topics, such as manager search, capital market theory and strategic asset allocation, this core team will access the assistance of specialists within our firm. In addition, analysts will support our core team,

developing recommendations and reports, providing day-to-day delivery of generalist investment consulting, and performance monitoring.

Brief professional biographies are below.

Jeffrey C. Boucek, CFA®

Jeff is a Principal in the Atlanta office of Mercer Investment Consulting and has been in the investment industry for more than 27 years. With more than two decades of experience in both the investment management and investment consulting industry, Jeff has a comprehensive understanding of the investment business.

Prior to rejoining Mercer in 2006, Jeff was a founding partner of Pipich Boucek Partners, LLC, an investment advisory firm serving institutional and high net-worth clients.

Prior to the founding of Pipich Boucek Partners, LLC, Jeff held senior positions with Atlanta-based Trusco Capital Management, where he was a Managing Director-Consultant Relations, and Pittsburgh-based Mellon Equity Associates, LLP, where he was the firm's Director of Consultant Relations.

Jeff's investment consulting experience includes senior positions with Towers Perrin Investment Consulting and Mercer Investment Consulting where he was the primary consultant to Public and Private Defined Benefit and Defined Contribution plans, Taft-Hartley Pension and Health & Welfare funds as well as Endowment and Foundation funds.

While working at Towers Perrin, where he was a Senior Consultant and Investment Consulting Practice Leader of the firm's Pittsburgh office, Jeff provided guidance to the firm's U.S. Investment Consulting Practice as a senior member of the firm's Investment Manager Search Committee. When he was previously with Mercer, Jeff was a Senior Consultant and Co-Manager of the firm's practice in Chicago.

Jeff graduated Magna Cum Laude with a BS in Business and Accounting (Economics-minor) from the University of Pittsburgh and earned a Master of Public Management degree from Carnegie Mellon University. He is a Chartered Financial Analyst®, a member of the CFA Institute and the Pittsburgh Society of Financial Analysts.

Keith Reynolds

Keith Reynolds is a Senior Associate and investment consultant in Mercer's Atlanta office. Keith supports multiple client relationships including corporate and public pension plans, endowments and foundations, and hospitals. He works with both defined benefit and defined contribution retirement plans. His responsibilities include providing performance evaluation, developing investment policies and objectives, and conducting manager searches and asset allocation studies.

Prior to joining Mercer in 2003, Keith was a senior analyst at Lend Lease Real Estate Investments, Inc. where he prepared portfolio performance return forecasting models used by senior management to design portfolio strategies. He managed several investor relationships, providing more than 15 client consultants with financial performance on their investments.

Keith holds a BS in accounting from Berry College and an MBA, with a finance concentration, from Mercer University.

3. If more than one person will be assigned responsibility for the account, how will the responsibility be allocated among these individuals?

As stated above, Mercer uses a team approach to provide timely and efficient service to clients. A lead consultant and co-lead consultant work with a project manager and consultants with subject matter expertise. The team is supported by analysts who assist in developing recommendations and reports, providing day-to-day delivery of generalist investment consulting, and performance monitoring. Within this team structure, the lead consultant manages all relationships and maintains access to specialist services to ensure proper oversight. Proposed team members are selected for teams based on several factors including areas of expertise, experience, geographic location and capacity.

Mercer has centralized functions such as manager research and performance analytics to facilitate the efficient provision of services. The Manager Research Group and Performance Analysis and Reporting Division (PARAD) provide support the core consulting team for searches, on-going manager due diligence and performance monitoring. Other specialist resources such as the Washington Resource Group, Mercer Sentinel[®] Group (investment operations) and responsible investing support special projects on an as needed basis.

4. How many client accounts are assigned to each of the persons named above? What is the range in asset values of those client accounts? What is the maximum and average number of accounts assigned to each professional?

Jeff is the lead consultant to six clients and the co-lead to three additional clients with assets in the range of \$110 million-\$18 billion. Keith currently is the lead to ten clients and the co-lead to four additional clients with assets in the range of \$20 million-\$625 million.

We do not place a formal limit on the number of client relationships any consultant may lead. Each client has different needs and complexities and, as a result, may require more or less time from their consultant. Senior field consultants generally lead no more than 10-12 relationships. Overall, our ratio of retainer clients to investment professionals is less than 7:1. This client to consultant ratio has been consistent over the last 5 years and Mercer expects this ratio to remain stable over the next 5 years as we simultaneously add senior consultants and new clients.

Rather than place explicit limits based on the number of clients, utilization levels for individual consultants are reviewed on a monthly basis. In cases where utilization is too high relative to target, we review the consultant's workload. If no immediate reduction in workload is anticipated, e.g., due to completion of specific short-term projects, we will consider curtailing the consultant's involvement in pursuit of new business until such time as the issue is remedied. This is true for professionals and support staff at all levels, not just for our lead consultants.

5. Summarize the average annual turnover in your firm cumulative over the last 3 years measured as departures divided by the total number of employees. Describe the turnover of key professional personnel during the past 3 years and provide a brief explanation

To protect individual privacy, it is Mercer's policy not to release detailed personal information regarding staff turnover.

US staff turnover of Mercer's investment consulting business is in-line with consulting industry norms (typically, 10-15% per annum). The average tenure for our senior consultants with the investment consulting business is more than ten years, and they average more than sixteen years of industry experience.

The following table summarizes the departure of senior personnel. In interpreting these statistics, the reader should bear in mind that Mercer's investment consulting business has approximately 140 professionals at the Associate level and above. While the figures are significant in absolute terms, they remain low in relative terms.

	2007	2008	2009
Join	24	13	37
Leave	17	7	14

6. Comment on how your firm attracts and retains motivated qualified professionals. What are your firms' continuing education requirements for its professionals?

To achieve our goal to be an employer of choice, we offer a competitive total rewards program, provide relevant training, cultivate a quality-oriented client focus and partner with major clients – all of which offer our employees a stimulating and challenging work environment. As a global firm, we can also assign employees with international interests to more than 180 cities worldwide. This enables us to provide a rich cultural experience for our employees as well as enhance Mercer's understanding and effectiveness in working with clients all over the world. To gauge the effectiveness of our retention efforts, we conduct periodic global employee surveys and implement changes in response to significant survey findings.

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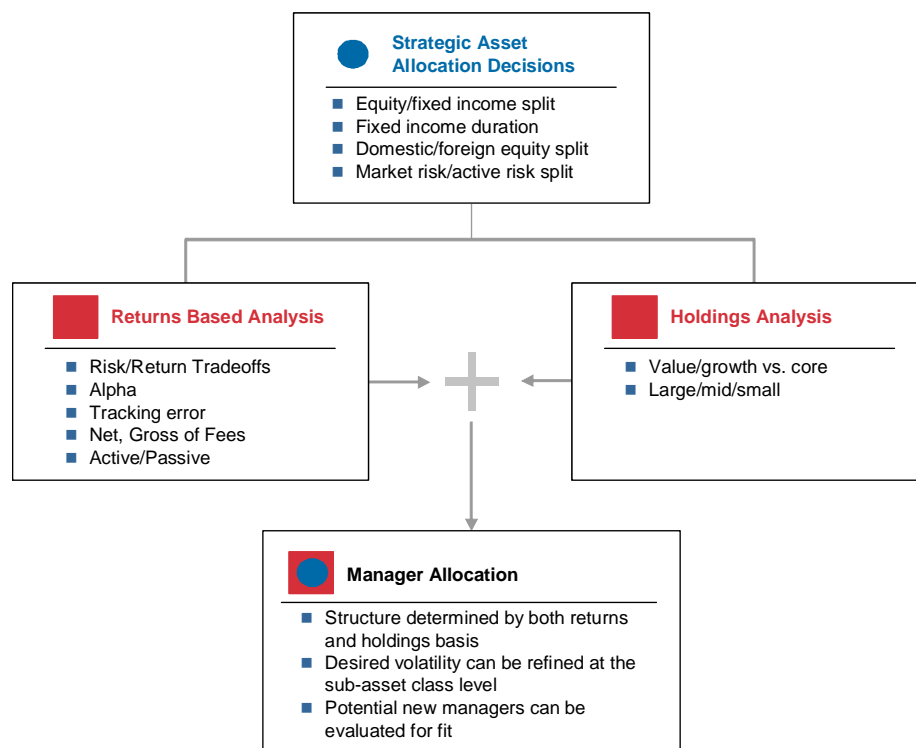
F. Investment Consulting Services

Asset Allocation

1. **Describe your firm's philosophy and approach to development of asset allocation strategies including methodology used for asset allocation modeling considering linkage to liabilities and funding, application of major variables (risk tolerance, etc.), and how frequently and under what conditions asset allocation should be changed.**

Our approach to asset allocation recognizes that all clients are subject to the same capital markets, but they have different investment problems to solve and different levels of comfort with the markets. As a result, the goal of our strategic asset allocation and investment policy work is to find the best intersection of the outlook for the capital market with the client's unique goals circumstances and constraints. The outcome is a unique set of client specific solutions, each built from the same core intellectual capital. To achieve this we work collaboratively with clients, establishing the interactive and creative approach that underlies all our consulting relationships. This approach includes:

- **Strategic asset allocation** – allocation among high-level asset classes
- **Portfolio structuring** – allocation among sub-asset classes to ensure proper diversification
- **Manager selection** – evaluation of manager performance in order to determine one suitable for a client's requirements



The process begins by collecting and analyzing key information, including plan goals/objectives, contribution/benefit payment policies, funded status, risk posture, and return expectations. During this process, we work closely with our asset/liability modeling group comprised of licensed actuaries who employ a series of proprietary software models to develop customized analytics.

After our analysis is complete, we present our findings and work with clients to evaluate the trade-offs in policy decisions by comparing key financial metrics.

Public Fund Experience

Most public funds focus on the trade-off of providing lower contributions while simultaneously making them as stable as possible. On a purely economic basis, the long duration of the liabilities should be matched up with a long, high quality bond portfolio. However, standard actuarial practices does not mark the liabilities to market--in particular, a static discount rate obscures the market value. Thus, the advantages of longer bonds aren't directly observable and only become apparent over the long run. (A short term analysis of one or two years could show greater variability of contributions with long bonds).

Another element that distinguishes many public plans is cost-of-living increases tied to inflation. In this case, TIPS can be very helpful in lowering contribution volatility.

Finally, many public plans are entering their "mature" stage: benefit payments exceed contributions; thus, liquidity needs are beginning to increase. Additionally, the size of the plans means that a downturn in the equity market can cause unfunded liabilities to increase by billions of dollars. Such plans should take on a more conservative posture to lower contribution volatility.

In order to address the issues stated above, Mercer leverages its vast actuarial knowledge, integrated with proprietary software tools to customize solutions for our clients.

As each plan is unique, the most important factor in asset liability modeling is an understanding the liabilities. We ask several questions to develop a clear understanding of the plan and its liabilities. These include:

- What is the split between active and inactive liability? Is there an early retirement window? What are the lump sum options?
- Is there an automatic cost-of-living increase, which makes the plan liabilities sensitive to inflation?
- Are the benefit formulas contingent on something other than salary, age, and service? For example, we have seen plans that have automatic benefit increases if the plans become 120% funded (which did happen in the late 1990s).

Once the demographics are correct, it is important to model contribution policies correctly or at least have the flexibility to model different contribution scenarios since many sponsors are choosing to forego their full contributions due to budgetary considerations. We use both stochastic and deterministic modeling in our approach.

Our Models

In order to understand the range of outcomes, we employ an economic model of capital markets (CMS) to focus on three fundamental factors – growth, inflation, and interest rates – that drive capital markets, and analyze the relationship to liabilities. Thus, if interest rates rise due to inflation, we utilize the same rise in inflation and interest rates in order to calculate returns on bonds and to determine if the discount rate is reasonable.

We use deterministic modeling of various economic scenarios in order to help comprehend the effects of specific economic events. We employ a set of six basic scenarios – base case, recession, stagflation, inflationary growth, ideal growth, and market correction – to illustrate and highlight the implications for different asset allocations. For example, the worst case scenario for the typical US pension plan is recession, as the present value of liabilities soars as interest rates decline while equities perform poorly. A relatively “good” scenario for a US pension plan is inflationary growth.

Stochastic modeling is used to help assign probabilities to the various market environments.

Review Process

We recommend a formal review of asset allocation policies every one to three years, unless there are significant changes to the underlying benefit or demographic structure. Typically, we recommend an asset liability study every three to five years, although many of our larger clients review their asset allocations annually.

Once a year, we review and analyze the investment policy, asset allocation, and portfolio structure. This analysis would update the asset allocation with the most recent economic and financial data.

2. What type of software do you use to model liabilities? Is this proprietary or other software?

We model assets and liabilities using two separate, internally developed software tools, Evolve and CMS. Additionally, we use our Portfolio Structure Toolkit for asset allocation, manager structure and risk budgeting projects.

Evolve

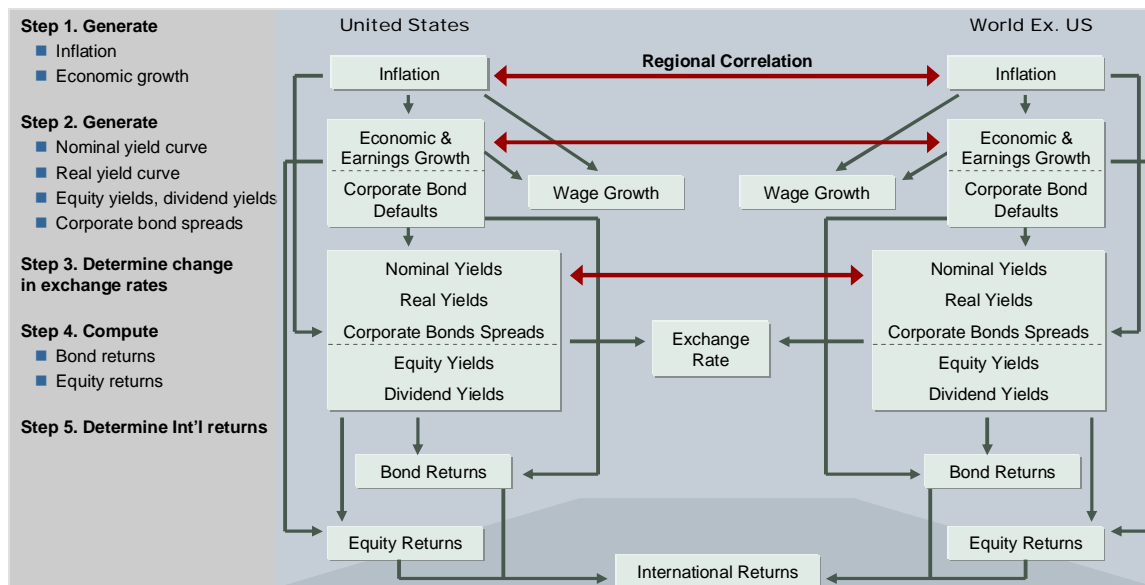
Evolve is proprietary forecast software to analyze asset mix, using all of the necessary liability and actuarial information. Evolve provides three main advantages:

- Consistency, accesses the same platform used by Mercer HR actuaries to provide budget forecasts to actuarial clients (that is, no shortcuts that ignore potentially painful aspects of funding rules)
- Flexibility, with an open architecture structure
- Timeliness, reflecting current changes in pension law or accounting standards

Capital Markets Simulator (CMS)

CMS is our proprietary economic model. Essentially, there are three main drivers of the capital markets: inflation, economic growth (which flows through to earnings and profits) and interest rates.

We model real interest rates, nominal interest rates, default spreads, dividend yields, and earnings yields (the inverse of price/earnings ratios). The flowchart below presents the methodology for generating capital market returns:



CMS provides three main advantages:

- Precise analytics, by employing an economic model, not a mean/variance model. The model is based upon economic fundamentals: growth, inflation, and interest rates that determine returns.
- Consistent global results, by simultaneously modeling multiple countries.

- Proper display of asset/liability relationships through direct modeling of interest rates and inflation

Portfolio Structuring Toolkit

The Portfolio Structuring Toolkit (PST) is Mercer's proprietary tool for asset allocation, manager structure, and risk budgeting projects. At the asset level, the PST can perform mean/variance optimization and analysis, as well as "surplus" management by defining a liability with mean/variance characteristics. At the manager level, the PST incorporates the information ratio, tracking error, and alpha correlations across managers to analyze and optimize particular manager structures at both a gross and net of fee level (the fee schedule for a manager can be one of the manager level inputs). Risk budgeting projects can be analyzed, allowing users to look at the contribution of a portfolio's strategic asset allocation and its interaction with manager structure. Output statistics include value-at-risk measures, contribution to variance, and probabilities of attaining returns. PST is integrated with Mercer's GIMD[®] database, allowing users to access manager data for analysis.

3. How many asset/liability studies has your organization performed in the last three years?

The table below summarizes the number of strategic asset allocation studies we have conducted for clients in the US. (as of December 31, 2009)

Number of Asset Allocation Studies			
	2007	2008	2009
U.S.	99	101	140

4. What type of software do you use to view assets and their allocation?

Mercer uses the Style Research Portfolio Analyzer to view client assets and their allocation.

Style Research Portfolio Analyzer is an external software package Mercer helped to develop with UK-based Style Research Limited. The Portfolio Analyzer offers a clear view of a single or combined portfolio's composition with respect to style factors influencing performance in each market. This software package enables us to analyze portfolios at a security level. This software package produces five outputs:

- General Risk Analysis – This module provides an analysis of portfolio tracking error, number of shares, security coverage, and persistence (security coverage over time) relative to compositions of major market indices (both domestic and international);
- Style Analysis – This module analyzes various data items and portfolio analytics so tilts can be interpreted as standard deviations from the mean of the selected benchmark;
- Risk Attribution – This module analyzes risks that can be attributed to Stock Specific risk, Style Tilt risk, Sector Allocation risk, and Market and Currency Allocation risk;
- Performance Attribution – The output from this module summarizes the contributions to excess (market relative) return, of the portfolio comprises current security holdings, from Currency Allocation, Market Allocation, Industrial Sector Allocation, Style Tilt, and Stock Specific features; and
- Returns-Based Style Analysis Output – This module permits us to interpret the level of style return and stock specific return.

Board Education

1. **What resources (i.e., human resources, internal research, conferences or seminars, industry information, etc.) will your firm draw upon to provide our plan fiduciaries with board education?**

Mercer offers clients education through a variety of media and settings. On a larger scale, we host periodic client conferences and web seminars, addressing current topics of interest. On a smaller scale, we can provide education sessions that are individually tailored to meet a clients specific needs.

Mercer holds periodic client conferences around the world. These events are held in major cities such as Dublin, Montréal, London and Sydney. Conference attendees include clients, Mercer personnel and investment managers. Generally, Mercer does not charge clients for attendance at our conferences but will charge investment managers that wish to attend. The goal of these events is to share intellectual capital with clients on a variety of subjects, offering educational sessions and opportunities to meet Mercer's thought leaders.

Mercer's investment consulting business held a Global Investment Forum in San Francisco, Jan 28-29, 2010. The theme of the conference was *From Chaos Comes Opportunity*. Attendees heard how institutional investors have adapted to the changing marketplace. Senior Mercer investment consultants and guest speakers discussed asset allocation strategies, emerging market challenges and new opportunities in alternatives.

In addition to client conferences we also host roundtables at local offices and web briefings for clients on topics of interest.

Our role as investment consultants is to provide our clients with training regarding the investment program they desire or in any other area we believe it is needed. Over the last year we have provided training sessions to clients on the following topics:

- | | |
|---|------------------------------------|
| ▪ Distressed debt | ▪ Private equity |
| ▪ GTAA | ▪ Infrastructure |
| ▪ Hedge funds | ▪ Portable alpha |
| ▪ Currency overlay | ▪ 130/30 (active extension) |
| ▪ Asset liability matching | ▪ Emerging markets |
| ▪ Derivatives | ▪ Investment industry trends |
| ▪ Board governance | ▪ Transparent hedge fund investing |
| ▪ Transition management | ▪ Custody |
| ▪ Securities lending | ▪ Currency |
| ▪ Opportunistic investments:
leveraged loans | |

Presenters are senior consultants who have extensive expertise and experience. Over 50 consultants are CFA Charterholders, more than 60 have MBAs, and on average consultants have more than 10 years of tenure at Mercer and more than 16 years of industry experience.

2. How often will these resources be available to our plan fiduciaries?

As stated above we host periodic client conferences and web seminars, addressing current topics of interest. We can also provide education session that are individually tailored to the Board, these meetings are available on an as needed basis.

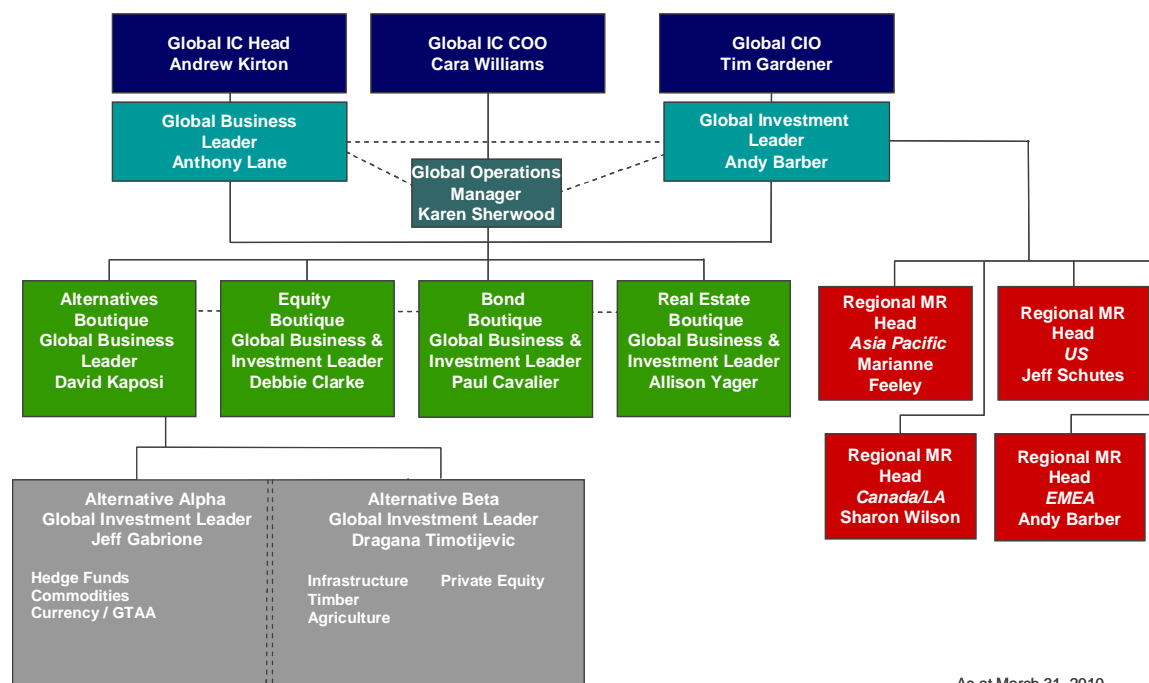
Investment Manager Searches and Monitoring

1. Describe your firm's experience and capabilities in conducting searches for investment managers.

We believe the strength of our Manager Research Group sets us apart from our competitors. Our global and comprehensive manager research capability is fundamental to our role as investment consultants in an increasingly globalized investment management market. Helping to identify and select the investment managers most likely to meet performance objectives is a vital part of our client service.

Mercer employs more than 80 full-time research staff globally. Consultants also provide support to the manager research process, typically in conjunction with client work. This includes meeting with managers during the search process and participating in due diligence reviews for their clients' managers. So while there are over 80 members of the manager research group, over 100 consultants contribute to our manager research efforts on a part-time basis. In 2009, we completed 126 non-DC searches in the US, placing approximately \$11.2 billion in assets.

Below is a diagram detailing the number and specialization of our manager research staff (as of March 31, 2010).



As at March 31, 2010

2. Describe in detail the process you will use to conduct manager searches for our plan.

Our manager selection process is best depicted by the diagram below:



1. We begin the manager search process by working with clients in order to determine appropriate manager selection criteria. Many clients wish to participate in the initial meeting with the research consultants to discuss potential candidates and how they might fit within the existing portfolio structure. Specific issues discussed include:

- Asset size and vehicle type
- Degree of alpha potential and tracking error
- Degree of correlation with other managers (to provide diversification)
- Separate client guidelines
- Cash flow requirements and fee sensitivity
- Emerging manager, minority-, or female-owned firm preferences

During this stage we can include any managers that your Investment Committee wishes to include in the search process.

2. Products given the highest rating – “A” – are those recommended for searches. During the manager search process, a client’s consultant generally works directly with the research consultants to select from the list of “A” rated products based upon the specific client criteria as determined in Step 1. The selected subset of “A” rated products comprises the initial candidates in an investment manager search.
3. After managers are selected, a comparative analysis report is reviewed which includes an analysis of various return/risk metrics over multiple time periods, qualitative summary of the manager’s investment process and key observations and statistics on the organization.
4. Once finalists are selected, we coordinate presentations including dates and times, presentation agenda’s and facilitate the entire process.
5. The final component, one that is sometimes overlooked until late in the process, is the logistics of the transition process. We work with a variety of clients in this capacity – from clients who wish to handle the transition process internally to clients who prefer that we handle the logistics of transitioning from one manager to another. We also help clients negotiate fees based upon our experience.

Throughout this process, we incorporate client staff into these steps based on the client’s preference. Many clients wish to participate in the initial meeting with the research consultants to discuss potential candidates and how they might fit within the existing manager structure. Additionally, we occasionally conduct semi-finalist interviews, either on-site or at the client’s location, in order to condense the list of finalists presented to the client.

3. Describe your manager search database, including the number of managers it contains, the source of information, the process of manager inclusion and under what circumstances a manager would be removed.

Mercer maintains a proprietary internet-based database, the Global Investment Manager Database (GIMD®), accessible to our consultants worldwide. GIMD serves as a central repository for all types of manager information: firm-wide demographic details, investment product details, performance, and research such as our meeting notes, news items, and manager ratings.

One of our key competitive advantages is that we provide system access to both investment managers and consultants, with no time constraints in a real-time, password-protected environment.

GIMD is entirely manager-driven, any investment manager globally can contact Mercer and receive the appropriate login credentials to maintain information on our manager database. There is no charge for inclusion in GIMD.

In an effort to provide the most comprehensive coverage of investment managers, our research staff continually sifts through periodicals, industry trade journals, and Internet sites. We also query investment managers for their ideas on worthy competitors. If we identify a manager that is not reporting into GIMD, we contact that manager to initiate its GIMD entry. This ensures that we have a central resource for all manager searches.

At a client's request, we will contact a manager and request that information be entered in our database, or we will obtain some basic information directly from the firm. Based upon our initial review of this information, which includes details regarding organizational and investment team structure, history of firm wide and strategy-specific assets under management, investment philosophy and process, team composition and strategy performance, we will determine if a meeting with the firm is warranted. If the manager passes this initial screening, we will follow the same due diligence as we normally do for any other manager.

The Mercer ratings review committee meets quarterly to screen GIMD, identifying candidates for in-depth research. After the meetings, designated researchers follow up with in-depth research and ratings recommendations.

Our ratings review committee uses these criteria to set manager research priorities:

- Review of GIMD entry: firm-wide demographics, investment process description, staffing information, track record
- Previous Mercer research: on a particular strategy, on other strategies offered, on key people at their previous firm
- Market intelligence: feedback from consultants, clients, and other managers

Based on these criteria, research priorities are assigned as follows:

- 1 Highest priority – research urgently
- 2 Research due within three months
- 3 Next research due one year after last research update
- 4 To be researched if time permits
- 5 Not of interest

If a manager no longer wishes to participate in GIMD, they are free to drop out of the database. Mercer deactivates manager entries if managers do not update firm information in a three year period.

More than 3,700 active managers have listed over 20,000 different investment strategies in our database.

GIMD – Traditional Strategies (December 31, 2009)			
United States	6,019	Australia / New Zealand	1,096
Equity	3,852	Equity	484
Fixed	1,596	Fixed	231
Balanced/Other	571	Balanced/Other	381
Europe	1,549	Canada	1,035
Equity	877	Equity	391
Fixed	449	Fixed	236
Balanced/Other	223	Balanced/Other	408
United Kingdom	871	Global / International	3,366
Equity	380	Global Equity	1,181
Fixed	315	Global Fixed	504
Balanced/Other	176	Global Balanced	134
Asia Including Japan	1,516	World ex US Equity	674
Equity	1,077	World ex US Fixed	29
Fixed	273	Emerging Market Equity	406
Balanced/Other	166	Emerging Market Debt	146
		Other	292
		Total – Traditional	15,452

GIMD – Non Traditional Strategies (December 31, 2009)			
Hedge Funds – Market Neutral	251	Multistrategy	271
US	87	Fixed Plus Cost	206
Europe	36	Distressed Debt	117
United Kingdom	7	Other	386
Asia including Japan	29	Real Estate	1,089
Australia / New Zealand	17	US	320
Canada	5	Europe	101
Global	48	United Kingdom	101
Other	22	Asia including Japan	84
Hedge Funds – Directional Long / Short	494	Australia / New Zealand	202
US	139	Canada	37
Europe	53	Global	198
United Kingdom	16	Other	46
Asia including Japan	106	Private Equity	473
Australia / New Zealand	15	FOF	286

GIMD – Non Traditional Strategies (December 31, 2009)			
Canada	10	Direct	154
Global	121	Other	33
Other	34	Other	588
Hedge Funds – Fund of Funds	1,001	Commodities	170
Directional	473	Infrastructure	144
Market Neutral	210	Timber	43
Single Category	294	Other	201
Hedge Funds/Absolute Strategies	1,440		
Global TAA	234	Total – Non Traditional	5,307
Currency	226	Total Strategies	20,759

4. Please describe the circumstances under which you would recommend terminating an investment manager.

We recommend placing an investment manager on “watch” or to terminate when:

- We lose confidence in the management of the strategy. This can be due to:
 - Changes in organizational structure or personnel** – A significant change in culture, usually resulting from a merger, acquisition or key staff departure, that is likely to distort incentives and promote turnover;
 - Changes in strategy** – If the manager departs from the strategy and/or style for which it was originally hired to implement, such as a switch from a quantitative process to a fundamental one;
 - Performance** – continued performance shortfalls versus a peer group of managers with a similar style and/or market index.
- The characteristics of the portfolio no longer satisfy the desired or expected elements of the mandate
- The current style is no longer deemed appropriate

Our clients may review the manager status at any time, but normally do so during quarterly performance review meetings. They review our recommendations to either place managers on watch or terminate relationships, and vote on such recommendations after deliberation. Managers are generally placed on watch status for a period of time prior to a decision to terminate the relationship. However, there may be circumstances under which a client may elect to terminate a manager without first placing them on watch.

5. Please provide the most recent performance of all the managers your firm has recommended over the last two years. The performance should be measured against the applicable benchmark over periods of 1, 3 and 5 years ending December 31, 2009.

Mercer tracks the performance of our highly rated managers, using a transparent methodology described in detail in the attached *Value Added Through Mercer Manager Research*. Based on this methodology, our average value added since inception across 71 product categories per annum has been 1.1% (as of December 31, 2009). A brief

explanation of the methodology is provided below, with more detail and the results of the analysis are in the *Appendix*.

We calculate the average performance of the “A” rated strategies within each product category each quarter. We then compound these quarterly results together to calculate performance over longer periods. Finally, we subtract the return for an appropriate and widely accepted benchmark index for the product category concerned to calculate value added. We also calculate a risk-adjusted measure of the value added called the information ratio.

6. During the past 24 months, what number of investment management firms have you recommended for termination?

We estimate that average manager turnover is roughly 12% per annum by number of managers. On an asset-weighted basis it would be less than this, since there are relatively large assets in passive strategies, which tend to turn over much less frequently than active.

7. Describe your philosophy and process for conducting prior due diligence when conducting a manager search.

Our research process involves a combination of on-site visits to investment managers, statistical analysis, and the direct experience of our consultant teams who are responsible for establishing our view on each investment manager. In 2009, we held more than 3,200 investment manager research meetings worldwide, including more than 1,400 meetings in the US. Globally, more than 100 field consultants meet with managers periodically.

For on-site meetings, we meet with portfolio managers, analysts and traders to assess the merits of the strategy on a forward-looking basis. We focus on the drivers of past and future performance.

Our research consultants evaluate an investment strategy both quantitatively and qualitatively. Initially, they analyze all strategies using a quantitative review process to gauge whether performance resulted from skill or luck. We also perform detailed, quarterly performance attribution analysis on all of our clients' managers, customized to meet their needs and requirements. Please see our response to questions 10 and 11 for detailed description of our quantitative and qualitative process.

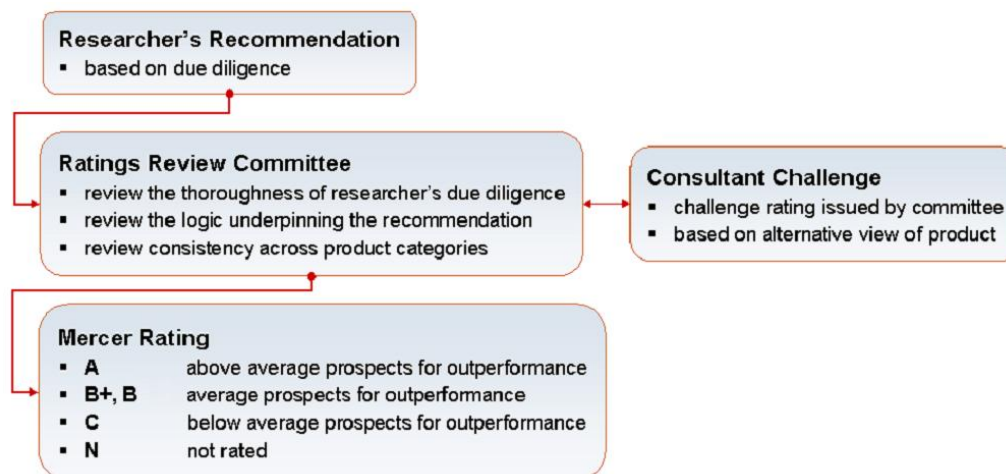
Ratings Process

Our formal ratings review process helps to ensure a high-quality selection of managers for the search process and for the continual evaluation of client portfolios. Our objective is to evaluate the probability of each strategy outperforming its benchmark on a risk-adjusted basis over the next three to five years.

To help accomplish our objectives, we have implemented Ratings Review Committees (RRC) to cover strategies worldwide. Each committee is comprised of selected senior field consultants and research consultants, who are responsible for establishing and monitoring strategy ratings. Each strategy in our database is judged on rigorous quantitative screening criteria and a qualitative assessment by this experienced, senior group. In conjunction with the US Ratings Committee, the International Ratings Review Committee (IRRC) is comprised of senior manager researchers and investment consultants drawn from our Australia, Canada, UK and US offices.

Each committee holds quarterly conference calls to review all ratings for their respective strategies. We also discuss the performance of our “A” rated managers against performance expectations given the market environment. Additional calls are held in between quarterly conference calls if we believe there are circumstances that warrant our immediate attention.

The model below demonstrates the process we follow to arrive at an appropriate rating.



Products given the highest rating – “A” – are those recommended to clients. During the manager search process, a client’s consultant generally works directly with the research consultants to select from the list of “A” rated products based upon the specific client mandate. The selected subset of “A” rated products comprises the initial candidates in an investment manager selection exercise.

Managers are rated “B” for a variety of reasons – they may be managers we are just getting to know, startup firms or firms with new teams having short track records; we may upgrade the rating as time passes and we become more familiar with them. We may downgrade a manager to a “B” as we are analyzing some negative occurrence (e.g., a change in ownership or a significant change in the team) as an interim step to moving to a “C” rating. One reason our Global Investment Manager Database (GIMD®) is such a powerful manager database is that it contains both ratings and notes; it is always important to know the reasons for a rating.

Within the A, B, C, N framework, for every investment strategy that we research, our manager researchers evaluate each of the following four factors:

- Idea Generation
- Portfolio Construction
- Implementation
- Business Management

Each of these factors are rated as either Negative (-), Neutral (=), Positive (+) or Very Positive (++) and the analysis adds structure to the judgment call on the likelihood of outperforming. As an example, a manager with (in our view) a strong research capability and high quality portfolio management team, but (again in our view) too much money under management and hence liquidity issues to address, is currently rated as a B+ overall, broken down as follows:

- ++ for idea generation
- + for portfolio construction
- = for business management, and
- – for implementation

We do not have a specific performance history or assets under management requirements for manager ratings. For most searches, we prefer that managers have a minimum five years of performance history, but we will include managers with as few as three years of history (or less) if their story is compelling.

8. Do you conduct on-site visits of investment managers that are in your database? How many? How often?

On-site visits are conducted for all “A” rated managers every 12-18 months. In 2009, we held more than 3,200 investment manager research meetings worldwide, including more than 1,400 meetings in the US.

9. Describe the process of monitoring the activities of the various managers. How often do you perform this assessment? How do you assess that the manager is maintaining consistency with their mandated style?

We track changes in a manager’s organizational structure or personnel, as well as their strategy and performance. These changes are noted in GIMD and as a matter of course, communicated to relevant clients. GIMD is web-based, permitting managers to directly update their information and our consultants worldwide to access the information. Investment manager meeting notes and news items distributed electronically to consultants worldwide are forwarded to clients when appropriate. Our insights and opinions provide timely information to clients and supplement their own due diligence activities.

In a multi-manager environment, it is critical to monitor a manager’s style. Any changes to a manager’s style may cause an increase in total portfolio risk through overlapping positions.

We monitor investment managers’ style using a variety of methods. We initially review general portfolio statistics versus each index to ensure that portfolio characteristics are similar to those of the benchmark. We also perform returns- and holdings-based style analysis to ensure that portfolio characteristics remain consistent over time. In constructing our peer group universes, we use these tools to analyze manager strategies and place them within the appropriate peer groups. Our opinion of a manager’s style may differ from the manager’s stated style based on our analysis.

Our holdings-based style analysis software offers clear evidence of the relevance of basic equity styles within major equity markets and across broad market regions. The software identifies and highlights risk exposures within equity portfolios, as well as to anticipate important factor return trends, trend shifts, and their influences on portfolio performance. The chart below demonstrates some of the information available using this approach.

10. What qualitative factors do you evaluate when researching investment management firms? How does your firm identify qualitative problems at these organizations? How do you verify investment manager information such as performance history?

Our research consultants meet with investment managers both on- and offsite. For on-site meetings, we meet with portfolio managers, analysts and traders to assess the merits of the strategy on a forward-looking basis. We focus on the drivers of past and future performance.

In order to ensure clear guidance and consistency across our global research platform, Mercer evaluates investment strategies based upon the following four factors: Idea Generation, Portfolio Construction, Implementation and Business Management. We believe these four factors encompass the qualities that investment managers need to be able to do well in order to have strong prospects for outperforming. Each of these factors are rated as either Negative (-), Neutral (=), Positive (+) or Very Positive (++). Our overall strategy ratings are derived based on an overall research opinion. They do not represent a weighted average of the four factor scores.

The four factors correspond to a set of four core beliefs about the key drivers of investment performance as follows:

Factor	Core Belief
Idea Generation	In order to outperform, a manager must be able to generate value-adding investment ideas. It is the quality and breadth of these ideas that are key drivers for long term success.
Portfolio Construction	The quality of a manager's portfolio construction process will determine how effectively its value-adding investment ideas are converted into consistent outperformance. Key elements are how well the manager calibrates active positions in the portfolio, the extent to which these reflect the manager's highest conviction ideas and how well they manage risk.
Implementation	For a manager to outperform, the value added through its investment ideas and portfolio construction process must outweigh the drag on its performance due to transaction costs.
Business Management	Well managed investment firms are more likely to maintain and enhance the competitiveness of their investment strategies over time than poorly managed firms.

Following the meeting the research consultant writes a research note which is then peer reviewed by another researcher. If a researcher believes a change in a strategy's rating is warranted, a detailed analysis supporting the recommendation is prepared and then brought before the relevant Rating Review Committee (RRC). The recommendation is discussed and all rating changes are approved by a majority vote of the RRC.

Validation of data

We verify data by analyzing manager responses in GIMD, as well as investment manager performance. During manager searches, we require managers to verify the accuracy of their product information.

We require investment managers to report compliance with CFA[®] Institute standards. Managers are also requested to report on a timely basis any SEC censure or investigation of their performance histories. Finally, managers must report annual dispersion within their composites, permitting us to validate their composite information.

In addition to manager responses, we analyze the validity of manager-reported performance through responses in our questionnaire database and through personal meetings. In addition to validating manager performance data in our database, we gain insights about composite performance through our work analyzing a wide range of client portfolios. We compare client results versus composite results in order to determine whether differences are warranted.

We ask a variety of questions concerning composite construction, some which are listed below:

- Does the manager claim compliance with the CFA[®] Institute's Global Investment Performance Standards (GIPS[™])? Are results verified externally?
- Are all actual, fee-paying, discretionary portfolios included in at least one composite?
- Does the composite include model results? Non-fee paying portfolios?
- Does the composite include performance from when the manager was employed at another firm?
- Does the manager compute a measure of performance dispersion within the composite?

11. **How is historical performance used in your evaluation of investment managers? How do you verify investment manager information and their compliance with AIMR performance reporting standards?**

Helping clients identify and select investment managers most likely to meet risk-adjusted performance objectives on a **forward-looking basis** is a vital part of our consulting services. While past performance is one component of our analysis, this measure is backward-looking and is not necessarily indicative of future outperformance.

Quantitative Review

We focus on many different quantitative measures, including the following measures that we feel are critical to understanding manager performance:

- **Alpha** (the excess return the manager historically added over an appropriate benchmark) measures whether the manager has skill in managing assets in a particular asset class. We also evaluate down-market alpha, or a manager's ability to add value in down markets to help clients gauge how well a manager protects assets in a declining market.
- **Batting average** measures the percentage of time a manager outperformed its benchmark over a given period, thus indicating performance consistency.
- **Sharpe ratio** measures the degree to which volatility of performance is compensated by additional return. A higher Sharpe Ratio means that the manager is achieving greater performance per unit of volatility (i.e., risk). We analyze both historical and expected Sharpe ratios. We relate a strategy's Sharpe ratio to its stated objective in order to ascertain if the investment process meets client expectations.

We employ several tools to assist in our evaluation of a strategy's return/risk characteristics.

- **Manager Performance Analytics (MPA[®])** provides analysis on a variety of measures including: excess return over rolling time periods, risk characteristics (tracking error and standard deviation), returns consistency, information ratio, confidence of value added, correlation of returns analysis, and performance in up/down markets. This system evaluates a strategy's performance and risk characteristics relative to its appropriate peer group (large value, large growth, large core, etc.) and benchmark.
- **Style Research Portfolio Analyzer** provides a clear view of a single or combined portfolio's composition with respect to the style factors influencing performance in each market. This software package enables us to analyze portfolios at the security level.

Manager Compliance

Mercer requests managers to present composite performance in compliance with the CFA[®] Institute's Global Investment Performance Standards (GIPS[™]) and to provide their auditor's name. We do not independently verify every composite return stream, as this would be impractical with more than 14,000 strategies in the database. We do, however, regularly check dispersion between actual client accounts and manager composites for the most frequently used investment strategies.

The InvestorForce (IF) system performance calculations are compliant with CFA[®] Institute Presentation Standards.

The system's principal calculation methodology is the modified Dietz algorithm for the day-weighted returns using beginning- and ending-month market values provided by the client's custodian or recordkeeper. Transaction activity is day-weighted at the total portfolio level, as well as at the sector level.

The Mellon Analytical Solutions system calculates investment performance both net and gross of fees through specific treatment of individual manager fee transactions. The system calculates performance on an accrual basis, provided the accrual information is available from the custodian or recordkeeper.

12. What process do you use to classify a manager's style for inclusion in your database?

Mercer's Manager Research Group (MRG) thoroughly reviews every strategy in GIMD regularly. Categorization by style takes into consideration qualitative analysis provided by the MRG as well as quantitative analysis. The following reports are examples of the types of quantitative analysis reviewed:

- Performance Reports: (five year rolling performance, confidence level of value added, quarterly excess return, up/down market return analysis, tracking error, risk/return charts)
- Effective Asset Allocation Reports: (five year rolling returns based style analysis, quarterly returns, correlation)
- Style Research Portfolio Analytics: (quarterly portfolio characteristics and risk factors)
- Fama-French Reports: (five year rolling Fama-French regression and CAPM regression)

Capitalization guidelines

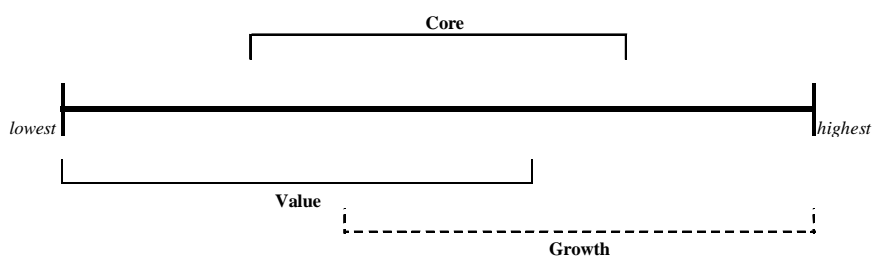
Portfolio average and median capitalization bands are allowed to be quite broad and are defined to correspond with the Russell Indices. General guidelines are shown in the table below.

Capitalization Category	Average Capitalization	Median Capitalization
Micro	Typically < \$500 MM	Typically < \$300 MM
Small	Typically > \$500 MM; < \$2 BN	Typically > \$300 MM; < \$1 BN
SMID	Typically > \$1 BN < \$5 BN	Typically > \$700 BN < \$5 BN
Mid	Typically > \$2 BN; < \$13 BN	Typically > \$1 BN; < \$5 BN
Large	Typically > \$13 BN	Typically > \$5 BN

Style guidelines

Equity

Equity style primarily considers price-to-earnings ratio (P/E), price-to-book ratio (P/B), and five-year earnings per share (EPS) growth rate, graphically arraying style as follows:



Style Category	As defined by		
	P/E	P/B	EPS Growth Rate
Growth	Within the middle-to-highest portion of the range		
Value	Within the middle-to-lowest portion of the range		
Core	Within the middle portion of the range		

Fixed Income

For classification by maturity range, the benchmark is the primary determinant of the appropriate category. The exception is when the reported duration of the portfolio is consistently outside the 40% range for the relevant benchmark. In these cases, the product is classified according to actual portfolio duration.

Style Category	Duration	Additional Criteria
Short-Term	1.0 to 2.4 years	Duration within 40% of 1-3 Year benchmark over time
Intermediate-Term	2.0 to 4.6 years	Duration within 40% of intermediate benchmark over time
Long-Term	> 6.0 years	Managed against a long benchmark or a stream of liabilities and maximum of 40% shorter than the benchmark duration (6.0 and up) over time
Core Opportunistic	3.0 to 7.0 years	Duration within 40% of a core benchmark duration (e.g., LB Agg) over time. Allocation to high yield, non-dollar, securities with non-benchmark-like risk (structured securities, privates, non-standard collateralized securities) or a combination of the three may exceed 15% of the portfolio. Also includes strategies where manager makes aggressive use of derivatives.
Core Investment Grade	3.0 to 7.0 years	Duration within 40% of a core benchmark duration (e.g., LB Agg) over time. Maximum allocation to high yield, non-dollar, securities with non-benchmark-like risk (structured securities, privates, non-standard collateralized securities) or a combination of the three can not exceed 15% of the portfolio. Excludes strategies where manager makes aggressive use of derivatives.
High Yield	--	Strategy managed against a high yield benchmark. Average Quality less than or equal to BB+

Balanced

Style Category	Additional Criteria
Core	Asset allocation fluctuates within a moderate band around a 50/50 benchmark and allocation shifts are made occasionally
Tactical Asset Allocation	Asset allocation may fluctuate within a broad band around a 50/50 benchmark and allocation shifts are made frequently

International/Global Equity and Fixed Income

Style Category	Additional Criteria
International/Global Equity	Typically < 40% of the portfolio allocated to small cap stocks and < 40% of the portfolio allocated to emerging market stocks; International Equity excludes the US.
International Small Cap Equity	Majority of the portfolio invested in stocks that are considered small cap relative to each country's market capitalization
Emerging Markets Equity	Majority of the portfolio invested in Non-EAFE (excluding U.S. and other developed markets) stocks
Global Core Fixed Income	Typically < 20% of the portfolio allocated to emerging market debt; no country bias. Separated by hedged and unhedged benchmarks.

13. Does your firm charge direct or indirect fees for investment managers to be included in your database or in any manager searches that you conduct on behalf of your clients?

No. Any investment manager globally can contact Mercer and receive the appropriate login credentials to maintain information on our manager database without cost or obligation.

14. Does your firm receive any compensation, directly or indirectly, from investment management firms for any reason? If so, what is the source of the compensation and how do you prevent conflicts of interest as a result of the relationship?

No.

15. Please provide a specific example of a pro-active investment proposal to a Board and the outcome of this suggestion.

Mercer is involved in project work with clients on a continuous basis. Depending on the project in question, our work can be in conjunction with the client or independent of client involvement.

Some examples of recent work are noted below.

Example 1

We work with a public fund that suffered losses in their securities lending program and as a result was facing many issues related to the program they offered to municipalities across their state.

Together with the client's staff and Investment Committee members, we addressed the issues internally, with their custodian and with appropriate rating agencies. Our work with the client in this area has been ongoing for over a year and recently resulted in the selection of a third-party manager to oversee their securities lending program while maintaining their existing custodial relationship.

Example 2

We work with one of the largest financial institutions in the world, which has grown both organically and through a series of acquisitions over the past ten years. Through acquisitions, the firm oversees several "legacy" defined benefit plans with multiple managers. At one time the client was overseeing more than 90 managers across multiple asset classes.

Working with the client's internal staff, which exceeded six investment professionals, Mercer evaluated each investment strategy by asset class and style. Using proprietary tools, Mercer evaluated the investment strategies, utilizing both return based analysis and holdings based analysis, in conjunction with our manager research resources to determine the optimal manager structure both by asset class and for the total portfolio.

The analysis allowed the client's staff to select investment strategies in various categories (fixed income, domestic and international equities and sub categories such as growth vs value or by capitalization) that optimized return patterns and also allowed them to test various strategy mixes relative to the resulting portfolio characteristics (capitalization, sector coverage, style bias, etc.). This analysis resulted in the creation of a master trust made up of fewer legacy managers, optimized to meet their investment and return needs.

Example 3

We work with a public fund that is significantly underfunded. Last year, the state in which this client resides mounted an effort to take over all administrative oversight of their pension plan, which includes fire, police and administration, while leaving them with the financial responsibilities.

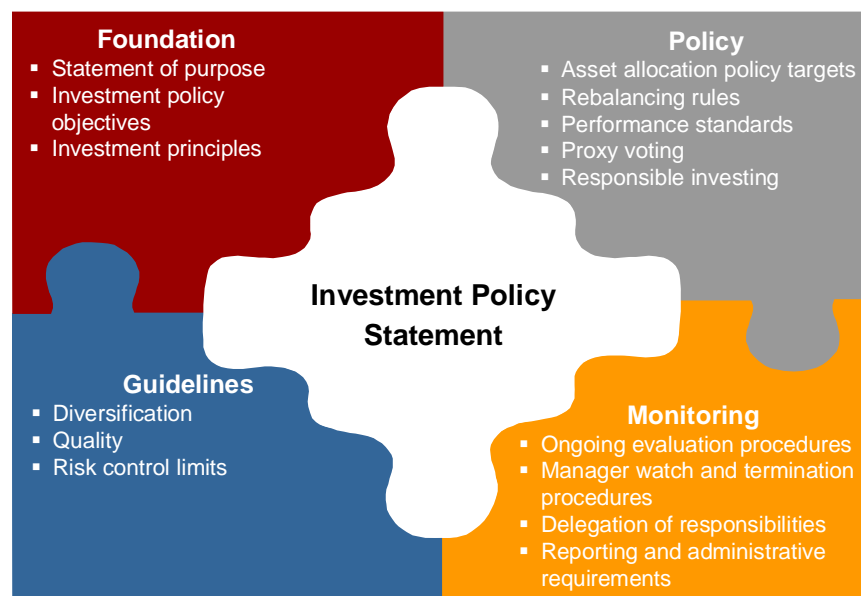
The result of this effort by the state could have been financially detrimental to the client due to several actuarial changes that would result. We worked with the client's internal staff, politicians and union representatives to demonstrate the significance of the potential financial hardship and at the same time prove that prudent steps had been recommended by Mercer to put their pension system on a course of recovery.

Over the course of several weeks, the state conceded that steps had been taken and afforded the client additional time to complete a transaction that would significantly improve the pension system's funded status.

Investment Policy

1. Please describe how your firm develops investment objectives, investment policy, and guidelines.

One of the key features of a strong fund governance structure is a well-developed investment policy statement that guides both fiduciaries and non-fiduciaries in the management of the fund. We assist clients in enhancing and refining their investment policy statements to reflect fund objectives and risk tolerances they have developed. This includes regular reviews and updates/enhancements, as appropriate. The graphic below depicts the key components of an investment policy statement.



The policy should reflect “*strategic*” or long-term objectives, rather than “*tactical*” objectives, or those that are short-term in scope. However, the policy must be dynamic enough to take advantage of and respond to economic, capital market, and program-related changes.

Following decisions made as a result of the asset allocation, portfolio structure and manager reviews (as required), we work with the client to review the investment policy statement. Such a document represents good governance by virtue of the fact that it (i) ensures continuity in the event of turnover of Board or staff members and (ii) it documents the decisions made and their underlying rationale - providing support in the event that the client is challenged by regulators, thus helping to manage reputational risk.

In evaluating an existing investment policy statement, we review four distinctive areas:

- We evaluate the objectives and purpose of the fund to make sure that we fully understand the directive.
- We verify that the strategic policy has been communicated. We would expect the investment policy to list the asset allocation targets and ranges, the rebalancing rules and the investment manager performance standards.

- We review the investment manager guidelines to ensure proper diversification, appropriate quality restrictions and any prohibited transactions. In reviewing this portion of an investment policy statement, we overlay the current policy with our understanding of the current investment manager lineup to ensure current guidelines are fair and maximize the potential performance of each strategy.
- We review ongoing monitoring procedures. These procedures typically include timing of ongoing evaluations, delegation of responsibilities to various parties, reporting requirements, proxy voting procedures, general decision rules on what is and is not acceptable performance to the fund; and steps to take if objectives are not being met.

We have found that by having a very detailed investment policy statement, communication with the investment managers is improved and fewer misunderstandings occur.

2. Describe how your firm monitors investment managers' compliance with policy, objectives and guidelines and the process for continually reviewing investment policy, asset allocation and portfolio structure.

We review the total fund's overall compliance with the Investment Policy Statement on a quarterly basis. At both the total plan and manager level, we evaluate compliance with the client's statement of investment policy. We compare the plan's current asset allocation relative to policy targets and ranges. If any particular asset class is outside policy ranges, we work with our clients to develop a re-balancing strategy taking into account future contributions/withdrawals and transaction costs. We continually monitor investment manager's compliance with their investment guidelines. We are able through our systems, to aggregate individual manager portfolios in order to determine overall sector and stock exposure at the total plan level. This helps to ensure that managers are not taking inadvertent risks.

Our goal is to develop a structured approach towards plan management in order to help our clients achieve their objectives within an appropriate risk tolerance framework. The following diagram depicts our approach which is continuous as plan needs changes as well as changes within the capital markets.

Process Stage	Deliverables
-- Stage A -- Philosophy	<ul style="list-style-type: none"> Common understanding of different perspectives on pension fund risk management Full sight of key industry and competitor trends Agreed near- and medium-term corporate philosophy
-- Stage B -- Strategy	<ul style="list-style-type: none"> Identification of key business metrics & formulate objectives and constraints Analysis and modelling of alternative strategies with stress testing / key weaknesses High level risk budget that meets objectives within allowable tolerance Policy & governance framework development
-- Stage C -- Structure	<ul style="list-style-type: none"> Development of portfolio structure (i.e., active/passive, growth/value) Tactical / timing issues identified
-- Stage D -- Implementation	<ul style="list-style-type: none"> Investment manager recommendations with due diligence analytics Access to research resources Advice on manager transition
-- Stage E -- Monitoring	<ul style="list-style-type: none"> Ongoing monitoring against objectives & constraints Discussion of future strategic direction of fund Education on industry trends, capital markets and asset classes Monitoring/analysis of investment operations

We recommend a formal review of asset allocation policies every one to three years, unless there are significant changes to the underlying benefit or demographic structure. Typically, we recommend an asset liability study every three to five years, although many of our larger clients review their asset allocations annually.

Once a year, we review and analyze the investment policy, asset allocation, and portfolio structure. This analysis would update the asset allocation with the most recent economic and financial data.

More frequent reviews of Board strategy or IPS are may be brought on by organizational changes at the client or at the Fund's managers, extreme market conditions or regulatory changes. Any time the portfolio's mix or strategy is changed, a review of the IPS is an important step to ensure documentation of the change and ensure that the change adheres the Fund's guiding principles.

3. Describe your development of investment portfolio structure and strategy, including multiple managers and active versus passive management.

To meet your risk-adjusted return objectives most efficiently, we evaluate your alternatives in implementing the strategic asset mix you have chosen. We measure this efficiency by seeking the highest information ratio for the total portfolio, measured as the expected risk adjusted excess return *net of fees* divided by the tracking error.

In this phase, Mercer evaluates the following choices:

- Active vs. passive management in both equity and fixed income
- Large, mid and small cap equity allocations
- Growth / value /core style diversification throughout the capitalization range

- Emerging markets and unhedged currency exposures, for international equity
- For fixed income, exposure to international or non-investment grade bonds
- Real estate, private equity and hedge funds, either as alpha generators or as sources of risk management and diversification

Once we have identified portfolio structure alternatives we evaluate the Plan's current portfolio structure by performing holding-based style analysis on the equity and fixed income managers. We do not believe it is sufficient to categorize a manager based solely on its strategy (for example, a large cap growth manager will typically hold some stocks that do not meet the definition of large cap or growth). Holdings-based style analysis provides an accurate picture of the Plan's portfolio relative to the structure alternatives under consideration.

After the structure decision is made, we use the holding-based analysis to determine asset allocation changes that need to be made to implement the desired structure. This can include shifting assets between managers, adding additional managers, and/or removing managers.

To perform the holdings-based analysis we need to obtain portfolio holdings in electronic format for each of the current managers.

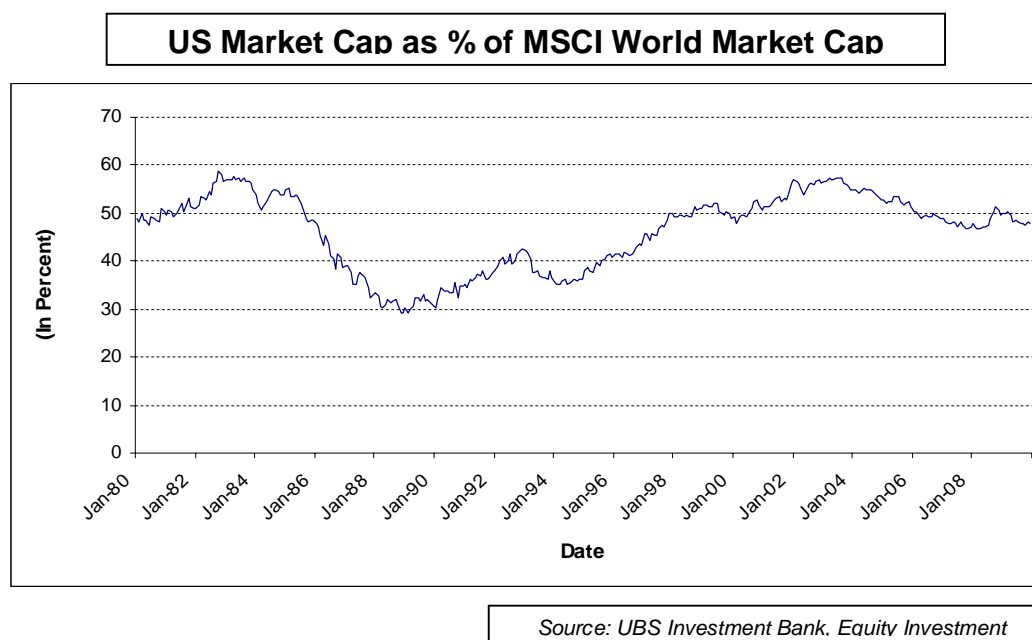
As a final step Mercer documents the target portfolio asset allocation and associated rebalancing ranges in an Investment Policy Statement.

4. Provide an opinion regarding the retirement plan's current asset allocation, manager structure, and performance benchmarks referred to in the Investment policy.

Mercer believes every client's situation is different and will work closely to provide advice regarding the plan's current asset allocation. Given we have not previously met with the Board we would want to discuss several key items. First, Mercer generally recommends that clients consider passive management in asset classes that we believe to be efficient and for which managers have not shown significant value-added relative to an appropriate benchmark on a net-of-fee basis. As an example, we consider the large cap core equity and fixed income segments of the market to be fairly efficient, and recommend to many clients that they consider indexing (or using enhanced indexing for) all or a portion of their allocation to these asset classes. Conversely, we have recommended clients not passively index their allocation to international and small cap equity.

Other high level observations would include the Plan's overweight to domestic equities at the expense of international equities. The current target allocation to domestic equity is 35% and the target allocation to international equity is 15% reflecting an overweight to domestic equities of over twice that of international equities.

As reflected below, the United States equity market accounts for approximately 50% of the global equity market. Being over or under weighted to either introduce a bias and resulting hidden bet that one economy is going to do better than another (i.e. the US economy will do better than the rest of the world economies).



Based on this, we would recommend considering increasing the target allocation to international equities.

With the benchmark for your international equity allocation set as the MSCI All Country World ex US, it would appear this asset class is well diversified. The Board might want to consider a dedicated allocation to international small-cap equities for further diversification.

Finally, there are other asset classes we believe the Board might want to consider for the portfolio due to the diversification benefits they offer. Examples of these would be a dedicated convertible securities portfolio, an allocation to a hedge fund-of-funds and an allocation to a Global Tactical Asset Allocation (GTAA) fund.

5. Describe the process that would be used for review and assessment of existing investment policies, guidelines, asset allocation and investment performance of the Fund.

Our process for the review and assessment of existing investment policies, guidelines, asset allocation and investment performance of the Fund are described in our responses throughout the proposal. In addition please see the response to question 2 for our process on how we continually review a client's investment policy, asset allocation and portfolio structure.

6. What does your firm consider to be the most critical issue regarding a public pension plan investment policy?

There are several issues facing public pension funds today. These include:

- Underfunding (which means more contributions and or higher investment returns are needed)
- Adapting to a lower return environment (which also means more contributions to the extent actual investment returns are lower)
- Governance in such an environment

Funding gaps affect many aspects of plan management, including contribution requirements, investment policy, and ability to grant benefit increases in the future. The problems are further exacerbated in cases in which the plans are large relative to the ability of their sponsors to fund them, and in cases in which the plans are moving into negative net cash flow positions (i.e., they are paying more in benefits than they are taking in as contributions).

Given the current market environment, which is characterized by relatively low nominal and real interest rates, relatively low credit spreads, and therefore by relatively low expected returns, at least compared to recent historically realized norms, Mercer has been exploring with our clients expansions in their use of alternative asset classes and alternative types of investment management to help address the issues detailed above. We have also been working with our clients to reallocate their overall risk budget towards areas in which we believe it is reasonable to expect higher returns to taking a given amount of risk, such as use of carefully selected, "high conviction" active managers (active managers that take substantial active risk versus their benchmarks) in relatively inefficient asset classes, and away from areas in which we believe the benefits of taking risk are more questionable, such as use of relatively risk constrained active managers in highly efficient asset classes such as US large capitalization equities.

Notwithstanding our efforts on the investment side, we do acknowledge that there is a limit to what can be achieved via higher investment returns. We also work with our clients to provide realistic estimates for future investment returns. This enables us to support the development of funding proposals (proposals for a given level of future contributions to be funded to the plan) designed to help ensure the future financial health of the plan and benefit security for its participants.

7. What is your firm's philosophy regarding the proper role of the consultant in the development of an investment policy and manager guidelines for a public pension plan?

Mercer's mission is to help clients identify an appropriate risk tolerance framework for their investment pools and to potentially optimize and monitor their investment return within that framework.

Mercer's philosophy is based on helping plans develop:

- A sound governance structure that contemplates accountability, delegation, and documentation
- An appropriate asset allocation considering spending policies, financial budgets, interest rate variability, and the plan's risk budget

- A manager structure that has the appropriate number of managers within a given asset class and is developed with consideration to active versus passive strategies
- An investment policy statement that reflects the plan's activities and long-term objectives
- A monitoring strategy for ongoing performance evaluation including quantitative and qualitative analysis relative to the plan's objectives

Mercer has established a set of fundamental beliefs and guiding principles upon which advice to clients is based. These beliefs and principles apply across the globe.

Risk & return are related – Capital markets are broadly efficient in pricing financial risk in the sense that if the expected return on an asset exceeds that of a second similar asset, there is frequently an additional risk entailed in holding the former asset. Risk is a multi-dimensional concept, however, and thoroughly understanding the risk of an asset can frequently be difficult.

Return requires risk but risk does not guarantee return – Risk-taking does not guarantee that an additional return will be achieved even over long time periods however – that is what risk is about.

Diversification can reduce volatility – Combining assets with historical returns that are less than perfectly correlated can help reduce the volatility of portfolio returns, all other things being equal. This is amongst the most important tenets of investment management.

The real world is complex – The real world is complex and assumptions underlying theories such as the Capital Asset Pricing Model and the Efficient Markets Hypothesis are frequently violated in practice. Accordingly, although such theories are of considerable assistance in understanding real world issues, they should not be relied upon exclusively.

Behavioral issues are important – Behavioral issues apply at the security level, at the asset class level, and the portfolio construction level. At all of these levels, these issues can have a significant impact on investment outcomes.

High quality, proprietary research is essential – Developing appropriate investment portfolios requires a substantial commitment to research, both by consultants/fiduciaries and by managers.

Performance Measurement and Evaluation

1. Describe in detail your performance measurement system and philosophy behind it. Is your system proprietary or did you obtain it from an outside source?

The goal of our performance evaluation process is to help clients meet their fiduciary responsibility by evaluating:

- Fund's adherence to policy guidelines
- Current investment strategy of the fund and its underlying managers
- Future capital market expectations and market trends

We believe that the management of a public pension fund is a continuous process and is not limited to providing a quarterly performance report. Our ongoing performance evaluation includes, but is not limited to:

- Periodic performance evaluation reports. These comprehensive reports provide information on asset allocation relative to policy targets; investment performance relative to appropriate index benchmarks and peer groups for the total fund and each manager; period-end portfolio characteristics; and investment policy compliance. Additionally, our reports include customized commentary at the total fund and manager level. We typically provide reports on a quarterly basis.
- Ongoing due diligence on the fund's investment managers. We provide continuous due diligence on changes that may significantly impact a client's investment managers. If concerns arise relating to these managers, we issue recommendations for appropriate action as needed.
- Ongoing investment consulting services. As significant changes occur in the capital market environment or available investment alternatives, we provide clients with educational presentations, information and recommendations to assist them in meeting their fund's long-term objectives.

To enhance our analytical capabilities, we have an agreement with InvestorForce (IF) to utilize their web-based system to produce performance monitoring reports.

For monthly performance calculation purposes, IF employs the Modified Dietz performance calculation methodology. This methodology utilizes beginning and ending market values and intra-month cash flows to calculate a rate of return for a specific month-end / period-end at both the account and composite levels. Additionally, for accounts where there has been a large cash flow (defined as greater than 10% of the portfolio value), Mercer has the option of calculating the time-weighted rate of return using the exact date of the cash flow. All underlying performance calculation methods are compliant with CFA[®] Institute's Global Investment Performance Standards (GIPS[™]).

Mercer utilizes a centralized group, the Performance Analysis and Reporting Division (PARD), to reconcile monthly manager-reported returns with custodial generated returns. Performance information is received by PARD directly from fund managers who then follow a detailed process to reconcile any return discrepancies within mutually acceptable asset-class specific tolerance bands. This process consists of identifying the appropriate amount and timing of cash flows, the investigation of reasons for market value discrepancies between the custodian and investment manager (i.e. pricing variations or

trade vs. settlement date accounting) and finally, a careful check of calculation methodology and verification of the treatment of accrued income and dividends.

Mercer is able to solve most reconciliation issues through this process. If additional problems exist, PARD analysts act as liaisons between the custodian and investment manager until a resolution is reached.

In collecting manager based returns, Mercer requests managers to present composites in compliance with CFA[®] Institute's Global Investment Performance Standards (GIPS[™]). Managers are asked to confirm whether they are Level I and Level II compliant, and if so to provide their auditor's name. We do not independently verify every composite return stream, as this would be impractical with more than 20,000 strategies in the database. We do, however, regularly check dispersion among actual client accounts and manager composites for frequently used investment strategies, and compare reported composite information to actual performance achieved for our clients.

Following the reconciliation, three sets of universe data (Mercer Manager Universe Data, MAS Trust Universe Data and Index Universe Data) are considered toward the generation of extended time period returns for all managers and composites which are sent to the field for a mandatory peer review process. Following this, a quarter-end book is put together and sent off to Mercer's field offices.

2. Do you purchase universe data or do you maintain your own? If purchased, from whom?

We construct more than 200 different universes, or peer groups, of manager performance on a quarterly basis by employing our quantitatively based system, Mercer Manager Performance Analytics (Mercer MPA[®]). Utilizing a set of style-based tools, we classify product returns into appropriate peer groups, based upon manager input and our own opinions.

For each peer group, we can provide manager rankings either as an actual or percentile ranking. Our quartile breaks can be shown as 95th/5th, 90th/10th or as a Minimum/Maximum.

3. Please specify and describe the universes you have available, how often they are updated, their sources (i.e., manager information, federal filings, calculation from bank statements, etc.), the type of accounts they contain, the number of portfolios, and the size range of the portfolios they contain.

We use proprietary and non-proprietary universe and peer group comparisons for a wide variety of plan types and asset classes.

For total plan comparisons, we participate in and use the Mellon Analytical Solutions Trust Universes to compare our clients' total plan and total asset class performance with other fund sponsors of similar sizes and types. Following is a list of the Mellon Analytical Solutions Trust universes currently available.

Universe	Description	Number of Participants
Master Trust Funds	Includes all corporate, foundation/endowment, public, Taft-Hartley and Healthcare plans.	1,731
Master Trust Funds - Billion \$	Includes all assets of corporate, foundation/endowment, public and Taft-Hartley plans with at least \$1B in assets.	770
Total Funds - Corporate	Includes all assets of corporate defined benefit plans.	865
Total Billion \$ Funds - Corporate	Includes all assets of corporate defined benefit plans with at least \$1 billion in assets.	436
Total Funds \$250M To \$1B	Includes all assets of corporate defined benefit plans with \$250M to \$1B in assets.	195
Total Funds \$20M To \$250M	Includes all assets of corporate defined benefit plans with \$20M to \$250M in assets.	188
Total Funds - Foundations & Endowments	Includes all assets of foundation and endowment plans.	470
Total Billion \$ Funds - Foundations & Endowments	Includes all assets of foundation and endowment plans with at least \$1 billion in assets.	143
Total Funds – Foundations	Includes all assets of foundation plans	240
Total Funds – Endowments	Includes all assets of endowment plans	230
Total Funds - Public	Includes all assets of public funds	243
Total Billion \$ Funds - Public	Includes all assets of public funds with at least \$1 billion in assets	192
Total Funds – Taft-Hartley	Includes all assets of Taft-Hartley plans	104
Total Funds – Healthcare Operating Funds	Includes all assets of healthcare organization operating funds	32

At an asset class/manager style level, we have developed a wide array of proprietary universes to compare performance results. Universes have been created for both institutional and mutual fund products using manager provided returns. In order to assess the styles of particular managers/products, we employ a quantitative and qualitative assessment of each product in our universes.

Universe	Products	Universe	Products
US Equity Large Cap Core	426	Emerging Markets Equity	138
US Equity Large Cap Value	388	Europe inc UK Equity	154
US Equity Large Cap Growth	357	Europe inc UK Equity Small Cap	38
US Equity Large Cap Index	92	Asia ex Japan Equity	57
US Equity Large Cap Equity	1171	Pacific inc Japan Equity	30
US Equity Value	768	Pacific ex Japan Equity	60
US Equity Growth	751	International Equity Small Cap	43
US Equity Mid Cap Core	69	International Equity	313
US Equity Mid Cap Value	109	International Equity Passive	12
US Equity Mid Cap Growth	128	Global Equity	329
US Equity Mid Cap Index	18	International Fixed Unhedged	26
US Equity Mid Cap	306	International Fixed Hedged	4
US Equity SMID Core	46	Global Fixed Unhedged	78
US Equity SMID Value	67	Global Fixed Hedged	22
US Equity SMID Growth	79	Emerging Market Debt	62
US Equity SMID	192	US Real Estate Open End	28
US Equity Small Cap Core	137	US Real Estate Other	14
US Equity Small Cap Value	204	US Real Estate Public REITS	56
US Equity Small Cap Growth	187	US Short Term Inv Funds	41
US Equity Small Cap Index	23	US Balanced	85
US Equity Small Cap Micro	43	US Balanced Tactical Allocation	10
US Equity Small Cap	528	Global TAA - Excess Returns	27
US Equity Small+Mid Core	206	Currency Overlay - Excess Returns	49
US Equity Small+Mid Value	313	Currency Funds - USD Based	58
US Equity Small+Mid Growth	315	US Convertible Composites	19
US Equity Small+Mid	834	US Equity Combined	2197
US Fixed 1-3 Years	116	Commodities Funds (Net)	69
US Fixed Core	293	Global Fixed – Hedged Sovereign	30
US Fixed Core Investment Grade	202	Global Fixed – Unhedged Sovereign	100
US Fixed Core Opportunistic	91	Global Fixed – Hedged Broad Market/Aggregate	16
US Fixed High Yield	102	Global Fixed – Unhedged Broad Market/Aggregate	59

Universe	Products	Universe	Products
US Fixed Intermediate	137	International Global Fixed Hedged	16
US Fixed Long Duration	40	International Global Fixed Unhedged	50
US Fixed Mortgage Backed	35		
US Fixed Combined	723		

4. Describe the types of analysis included in a typical performance evaluation report. To what extent can performance reports be customized?

When structuring a performance evaluation report, our consulting team works with our client to identify and detail specialized areas of focus appropriate to each client's portfolio structure and areas of interest. Reports integrate commentary, tables and color graphics that help to convey this information. There are numerous options for clients within the following areas:

- Asset allocation
- Performance reporting – total fund, equity/fixed income segments, individual managers
- Risk analysis
- Portfolio characteristics (domestic and international equity, fixed income)
- Performance attribution
- Style analysis

Mercer would provide formal reporting each quarter (typically 35 to 45 days after quarter-end) and ad hoc reporting when a particular situation warrants immediate discussions between the client and Mercer. For example, ad hoc reporting might include a manager change or a need to rebalance the asset allocation given prevailing market conditions.

Formal Reporting

- Overview of the economic and capital market environment as well as market trends
- Highlights of any organizational issues, within an investment management firm, meriting attention
- Qualitative evaluation of current asset allocation strategy, manager structure and individual investment strategies utilized
- Detailed attribution and quantitative graphs showing absolute results, relative results and other attribution analysis
- Compliance review versus investment policy standards

Ad Hoc Reporting

- Monthly flash reports of performance
- Manager meeting notes and news memos
- Relevant research and white papers

- Capital market assumptions and economic news alerts
- Mercer Surveys

Upon receipt of the performance evaluation report, Mercer would meet with the Committee each quarter to review the report and recommendations. Collectively, the Committee and Mercer would decide on action plans if necessary. Additionally, we would meet monthly during off quarter months to review the flash reports on performance and address issues of importance with you.

5. What risk analysis tools will your firm use to help our plan maintain an overall desirable risk level?

Risk is multi-dimensional and dependent on the objectives and stakeholders of the pension fund.

At both the total plan and manager level, we evaluate compliance with the client's statement of investment policy. We compare the plan's current asset allocation relative to policy targets and ranges. If any particular asset class is outside policy ranges, we work with our clients to develop a re-balancing strategy taking into account future contributions/withdrawals and transaction costs. We continually monitor investment manager's compliance with their investment guidelines. We are able through our systems, to aggregate individual manager portfolios in order to determine overall sector and stock exposure at the total plan level. This helps to ensure that managers are not taking inadvertent risks.

In evaluating investment managers, we analyze performance on a risk-adjusted basis relative to a benchmark over a three- to five-year time horizon. The most basic analysis is a standard risk-versus-return graph utilizing standard deviation as a risk measure; however, the Sharpe, Treynor and Information Ratios also provide measures of risk-adjusted performance. We also examine portfolio characteristics at each quarter-end, including equity portfolio beta and fixed income portfolio duration. Portfolio characteristics provide a means of evaluating the risk assumed as well as understanding return attribution.

We utilize Style Research to access risk factors within the portfolio by analyzing portfolio holdings. Some common factors we analyze are EPS growth (measure of growth orientation), Earnings/Price (measure of value orientation), Book/Price (measure of value orientation), Dividend Yield, and Projected Beta (measure of future volatility relative to the market).

It is also desirable to use the Portfolio Structuring Toolkit on an ongoing-basis to ensure that individual managers and teams have managers continue to maintain the characteristics that were considered during the strategic asset allocation process.

6. How frequently are client reports generated? How soon after the end of the reporting period are these reports distributed? Are these reports available through Internet access? Does your standard report format include an executive summary? Do you have the ability to customize reports for your clients? Will you provide a .pdf version of your report?

Client reports are typically generated on a quarterly basis. In general we can provide performance reports from 30 to 45 days following quarter-end, depending on the custodian bank. We can typically provide preliminary reports within two weeks after a

quarter end which link manager-calculated returns for the most recent quarter to the returns we have calculated from custodian data for prior periods. An increasing proportion of our clients desire receipt of flash reports, often monthly, as well as more formal quarterly reports delivered later. We can provide pdf version of our report, but internet access are currently not available

Clients may customize performance reports. The IF report designer offers robust reporting with extensive flexibility, the ability to “drag and drop,” as well as an extensive library of analytics. Jeff Boucek and Keith Reynolds will work with the Board, reviewing customization options, communicating specific requests to our Performance Analytics Reporting Division (PAR) in Chicago. We do not charge for report customization.

Our reports include an executive summary that provides a narrative description of performance. This narrative and our oral presentations are focused on areas of interest for the client. This exception based reporting focuses the discussion on the recommendations and observations that we feel are most useful to Plan fiduciaries in making decisions.

7. What asset categories are tracked in your performance measurement system? How many investment managers are included within each asset category? How many years

We maintain at least 20 years of performance data in our system.

We track approximately 325 indices on a monthly basis. If an index is not listed, but it is possible to track down the historical returns, the index can be added to the InvestorForce platform. Some of the indices we track include: JPMorgan, Barclays Capital, MSCI and Russell.

8. Describe how a new client would transition to your services and setup fees, if any.

We prefer to obtain historical data from your prior consultant or custodian in an electronic format. Typically, this data is provided at a summary level (monthly returns and market values) and we load the data directly into our performance reporting system. We would only backload asset level detail (portfolio holdings for multiple past periods) if that data is available in electronic form.

We combine these historical returns with returns that we calculate from current custodial transaction and holdings information. We can thus report uninterrupted all historical performance data. These combined returns can be reported for a combination of portfolios, a single portfolio, or separately for each asset class segment within a portfolio.

Mercer also requests that the Board provide a copy of the most recent performance evaluation report. The performance evaluation report ensures that we are informed and aware of any watch status funds or other action items that are outstanding. We also find that an initial meeting with the client to discuss the Plan and any history of changes can prove beneficial.

Once we have collected the necessary data, we will set up our reporting system for report production.

9. When the performance of an investment manager is not what is expected by your client, what additional steps would you follow in monitoring that managers' performance?

If performance is not meeting expectations in the short run, we meet with the investment manager to gain additional insight into performance. If underperformance persists, we continue meeting regularly and monitor the firm to watch for any loss of confidence or issues within the organization that could impact performance. The objective of further research is to determine if the underperformance is likely to continue. It is rarely a clear cut issue, but we spend the time necessary to develop a clear and detailed understanding and provide clients with specific recommendations.

Research Capabilities

1. **What internal research capabilities and resources does your organization have to obtain information and assist in decision-making?**

We have a "bottom-up" philosophy relating to strategic or non-manager research issues. That is, we believe that much of our best research regarding such issues comes from field consultants working on actual client issues. For this reason, we have not established a substantial central research "institute" charged with responsibility for conducting all, or even a large majority of, our research into such issues and providing results that consultants will be required to apply to their client work.

Mercer's US Investment Policy Committee (IPC) is our forum for senior consulting staff to discuss consulting issues, emerging trends, new areas for research, adding to our intellectual capital; and improving client results and client satisfaction.

The IPC focuses on consulting policy that translate into our house views regarding asset classes and investment issues. The committee meets to identify and prioritize areas for consideration and reviews house views based on new information, input from the field and shared intelligence. An additional core function of the IPC is the continual development and revision of Mercer Best Practices.

The IPC is responsible for the management and direction of the firm's research efforts, including the identification of both research topics and field resources to drive development of intellectual capital. The committee continually reviews research output and assigns degrees of priority regarding topics of concern.

In addition, the IPC must approve consulting tools that are utilized by consultants to assist clients. Such tools include our Capital Market Assumptions, Mercer's process for setting asset class expected returns. Our Dynamic Asset Allocation recommendations, which consider the current valuation of key market indicators vs. historical levels and allows investors to implement asset allocation changes using "tilts" – a range of allocations around target set during strategic asset allocation process are also approved by the IPC.

The IPC develops and continuously maintains a forecast of the consulting environment that looks three years forward and considers the following: what our clients will be thinking about, what issues Mercer will be addressing for our clients and what tools will be needed to drive the best possible decision-making. The committee also designs and implements key consulting enhancements; an example includes a formalized process for the development and management of multi-manager structures including qualitative spectrum measures.

The work completed by the IPC is passed on to our Directors of Consulting. Each of our regions operates a strategic research committee led by a Director of Consulting. The Committee addresses important issues emerging in its region and meets every six weeks to discuss developments and trends and to assign responsibility for writing research papers to either report out on the best ideas we are seeing from academia and the investments industry, or to conduct and report out the results of primary research conducted by Mercer. It would hurt our ability to add value if we adopted a "not-invested-here" bias, so projects conducted within these programs frequently draw upon external research.

The Directors of Consulting are:

- Divyesh Hindocha – Global – Chief Consulting Officer
- Terry Dennison - US
- Nick Sykes – Europe
- Jacqui Parchment – Canada
- Nick White – Asia

2. How does your firm gain knowledge pertaining to the relevant products and technology in the pension industry, and maintain an ongoing understanding of global market environments?

Our organization realizes that a successful partnership depends on informing our clients of new issues and trends globally. Thus, we communicate directly with our clients and continually disseminate information to our consultants for use in their client work, employing a variety of methods to keep clients and consultants current on relevant developments. Tools which serve to keep clients aware of industry and market trends include:

Mercer Select

Mercer Select is the premier membership service for Mercer clients and other contacts interested in news and analysis on a broad spectrum of human resource (HR) issues in the United States. The service and its content are designed to give you the information you need to do your job. Mercer Select is managed by two Mercer groups: The Washington Resource Group (WRG) and the US Information Research Center (US IRC).

Organized by topic and publication, Mercer Select is designed with simplicity and consistency in mind. It offers topic pages on Health & Benefits (H&B), including state H&B coverage; Human Capital, including Executive Remuneration (Exec Rem), HR Effectiveness, and Talent; Nonqualified Deferred Compensation (NQDC); Retiree Medical; and Retirement. It includes the following features:

Top Stories: Handpicked articles spotlight breaking developments and the most important articles from Washington and across the nation.

Today's Headlines: News briefs give full-text access to the day's top HR stories from the *Wall Street Journal*, *New York Times*, *Washington Post*, *Financial Times*, *BusinessWeek*, and *US News & World Report*, to name a few.

From Mercer: This collection presents a wide range of Mercer-prepared publications, including:

- GRIST Alerts, Reports and InDepths written by WRG experts on major legislative, regulatory, and judicial issues;
- Updates and Perspectives featuring Mercer consultants' expert points of view; and
- Weekly Highlights summarizing the prior week's notable legislative, regulatory, and legal developments.

Library: This content comes from numerous periodicals, including *Health Affairs*, *Journal of Financial Planning*, *Benefits Law Journal*, and *Ivey Business Journal*, among others.

Mercer's Washington Resource Group (WRG)

- Covers legislative and regulatory developments
- Undertakes tax, ERISA, and other technical analyses
- Assists in the development of innovative plan designs and benefit strategies
- Provides government relations assistance on matters affecting a wide range of benefit and compensation plans, including 401(k), defined contribution, defined benefit, non-qualified deferred compensation, health, retiree health, and cafeteria plans

Through participation in client-specific projects and Mercer-wide reporting, technical analysis, and professional development efforts, the WRG helps to ensure that Mercer's client work meets current legislative standards and requirements and the highest quality standards.

3. How many individuals in your firm are dedicated to research, what are their responsibilities, and where are they located?

Please see our response to question 1.

4. Describe your firms' manager research, evaluation and search capabilities in both the traditional marketable securities markets as well as your capabilities in less traditional, alternative assets areas, e.g. marketable alternative assets, hedge funds, and private, non-marketable equity funds such as real estate, private equity, venture capital, etc.

For our manager research, evaluation and search capabilities in the traditional marketable securities markets please see our responses to Section F - Investment Manager Searches and Monitoring section.

Our primary research emphasis within alternative investments encompasses real estate, private equity, hedge funds, and infrastructure. Given these investments' illiquid and idiosyncratic structure, our Alternative Boutique has dedicated several individuals with specific alternatives backgrounds to conduct due diligence, provide educational services to our clients, and recommend high-quality alternatives investment products within manager selection assignments. We also have professionals that cover currency overlay strategies and global tactical asset allocation strategies.

Traditionally, our alternatives research focus has been on evaluating the offerings most often considered by our clients – specifically, fund-of-funds products. For example, in real estate we concentrate on diversified partnership vehicles. We employ this approach in order to expose clients to a diversified portfolio of investment opportunities with quality funds that are often unavailable to new investors. We supplement this analysis with the research efforts of field consultants who have invested their clients in these areas. Field consultants may also continue to conduct due diligence on current and potential managers in order to help ensure that clients have access to timely information and advice regarding the deal flow within these asset classes. Our Global Real Estate Boutique is led by Allison Yager, a CPA whose background includes working as CFO for a large commingled private equity real estate fund. She is supported by eight specialists.

Mercer's Global Alternatives Boutique is headed by David Kaposi, CFA. This group is composed of over 20 specialists around the world who cover hedge funds, active currency, private equity, infrastructure, timber and other alternative strategies. This group is responsible for working with clients to establish strategic allocations in alternative asset classes, along with conducting manager research.

Our Alternatives Boutique is broken down into two sub-groups. The Alternative Alpha Boutique, which covers hedge funds, commodities and currency/GTAA, is headed by Jeff Gabrione, CFA. The Alternatives Beta Boutique, headed by Dragana Timotjevic, CFA, is responsible for private equity, infrastructure, timber and agriculture. Finally, due to our status as a leading investment consulting firm, we see the best thinking of investment managers and custodians around the world, some published and some not. For clients this means that we bring to bear on their projects and issues an unparalleled combination of our own best thinking, the experience of other clients around the world and the best ideas of other investment organizations.

5. What do you do to stay current with the Florida public pension laws?

As stated in our response to question 2 Mercer's Washington Resource Group (WRG) helps keep our consultants and clients stay current on major legal and legislative issues including those pertaining to Florida's public pension laws.

The WRG produces several information services to help Mercer consultants and clients stay current on major legal and legislative issues. Those that are available to Mercer clients and others include:

- **Mercer Select** -- News, reports and analyses of legislative, regulatory, and judicial developments and issues affecting retirement, health, compensation, employment, and other human resource programs. Available to Mercer Select Members via the Web.
- **GRIST Analyses & Perspectives** -- The WRG regularly publishes GRIST articles on major legislative, regulatory, and judicial issues and developments. Mercer Select members have access to GRIST and similar in-depth articles via Mercer Select.
- **Weekly Highlights** -- Weekly roundup of notable retirement, health, compensation, employment, and other human resource developments and issues. Available via email and Mercer Select.

5

G. Other

1. Please describe any investment consulting services that you can provide that have not been covered in previous sections. Discuss associated fees, if any.

In addition to the services described throughout the proposal, we feel that the Board would also benefit from the investment operations and responsible investing services that Mercer provides. These services would be priced separately depending on scope. Below are detailed descriptions of these two offerings.

Investment Operations

Mercer recognizes that investment operations implementation poses unique and discrete challenges to investors and requires a more specific skill set and level of expertise to successfully navigate these undertakings. These necessary skills and experience are different from those focused on generating investment performance or structuring investments to meet liabilities. As a result, Mercer established a specialist consulting unit in 1999 called the Mercer Sentinel® Group which is dedicated to investment operations, transactions and capital market infrastructure issues. The formation of this group was a notable departure from the industry tradition of using only “part-time” generalist consultants to cover these areas.

The Mercer Sentinel global consulting group, composed of over 50 full-time employees, is fully dedicated to consulting on:

- Transition management and trading
 - Transition strategy and risk assessments
 - Transition manager evaluation and selection
 - Panel structure and selection
 - Post-transition performance reporting and analysis
- Brokerage
 - Trading implementation
 - Analyzing commission arrangements
 - Transaction cost analysis
 - Benchmarking commission recapture programs

- Securities lending
 - Education
 - Program evaluation and optimization
 - Revenue analysis and validation
 - Performance monitoring
- Custody
 - Custodian selection
 - Custodian capabilities and fee benchmarking
 - Conversion assistance
 - Ongoing operations and service level agreement monitoring
 - Advice for custodian issues or queries
- Treasury management
- Investment operations and implementation
 - Pre-appointment investment manager operations due diligence, benchmarking and assessments
 - Regular analysis, benchmarking, and monitoring
 - Advice on establishing a robust governance and monitoring framework including all contracted agents and fiduciaries that introduce operational risk to investors and potentially erode alpha.

The Mercer Sentinel Group has built a strong reputation as a global best practice provider. We work with our clients to deliver customized, analytically vigorous and innovative consulting solutions. In addition to our leading-edge technology and intellectual capital, our consultants bring a wealth of practical experiences and local market expertise. Ultimately, our advice and recommendations are based on a synthesis of or expertise, quantitative analysis, and qualitative evaluations.

Responsible Investing

Since 2004, Mercer has offered specialist resources to assist clients in the responsible investment (RI) arena. The RI team includes 14 dedicated professionals as well as a number of local champions, who work with clients who want to develop or implement investment programs that consider environmental, social and governance (ESG) issues. Located in offices around the globe, the RI team offers services ranging from manager search, selection and monitoring to policy development, stakeholder-specific solutions and education sessions.

Our firm has experience working with leading responsible investors across a broad range of projects. Key capabilities include:

- **Manager research:** The RI team assigns Mercer ratings to a wide range of sustainable and RI-themed products. Examples include governance/activist funds, clean technology or renewable energy funds, and water funds. This research draws on the experience of mainstream asset class specialists as well as global RI specialists. The RI team also assigns ESG ratings to investment managers based on their capability to integrate ESG factors into investment decision-making and undertake proxy voting and engagement activities. ESG research is based on

managers' responses to questions in GIMD as well as discussions with the portfolio manager, analysts and the firm's voting or corporate governance officer.

- **Proxy voting and corporate governance:** Mercer's RI team has extensive experience in working with leaders in the field of voting and active ownership. The team helps clients develop proxy voting guidelines, compare proxy research and voting services, and provide information on governance investment strategies, engagement overlay services and governance research services.
- **Carbon footprint analysis:** The RI team offers a range of carbon footprint analysis services for clients to monitor managers on a quarterly or annual basis. This analysis can be integrated into Mercer's portfolio performance reports or presented in a separate report. The data can be used to review current and potential managers, and to begin a discussion with managers or portfolio companies on carbon disclosure and risk. The level of analysis and final deliverable can be customized to meet specific client needs.
- **RI and PRI policy development and implementation:** The RI team develops policies, guidelines and implementation plans for a variety of clients around the globe. A flexible and measured approach is applied, drawing from our experience and the growing number of tools, investment products, and initiatives available to institutions. In addition, Mercer is a contributor to and signatory of the UN-sponsored Principles for Responsible Investment (PRI), which encourages ESG integration from a fiduciary and long-term investment perspective. The PRI provides a useful framework for investors with supporting tools and services. Mercer's RI team provides a range of services around the PRI, including education, benchmarking, implementation and reporting.
- **Trustee education:** The RI team frequently delivers customized educational sessions to clients. These presentations are tailored to clients' needs and can help lead to the establishment of RI policies and implementation plans. Possible topics include:
 - "Responsible Investment 101": A review of the basics
 - Clean technology and environmental investing
 - Investment impacts and risks from Sudan/Iran divestment
 - Shareholder engagement and collaborative investor initiatives
 - An overview of the PRI and best practices for implementation

Research and education projects: Our specialist professionals frequently work with clients, including industry groups and associations, to build intellectual capital relating to RI. In order to view a full list of publications, please visit www.mercer.com/ri.

2. Does your firm have insurance coverage for errors or omission of at least \$5 million, or general liability insurance of at least \$1 million? Will you provide certificates if your firm is hired and annually thereafter?

Mercer is covered under a comprehensive insurance program designed by our parent company, MMC. The insurance program provides limits of coverage that meet or exceed usual and customary standards of insurance for similar firms insuring similar risks. We can provide the Board with insurance certificate if hired and annually thereafter.

Mercer currently maintains the following insurance coverage:

- Errors and Omissions (E&O) (aka Professional Liability) -- The company's professional liability insurance coverage is provided by Epsilon Insurance Company, with liability limits of \$10,000,000 per claim.
- Commercial General Liability – Mercer 's commercial general liability coverage has limits of liability of \$2,000,000 combined single limit per occurrence and \$4,000,000 in aggregate.
- Automobile Liability -- Mercer's automobile liability coverage for owned, hired and non-owned vehicles has limits of liability of \$5,000,000 combined single limit per accident for bodily injury and property damage.
- Workers' Compensation and Employers Liability -- Mercer maintains workers' compensation coverage as required by state law and Employers liability limits of liability of \$2,000,000 per accident.
- Fidelity Bond -- Mercer's Fidelity Bond coverage is provided by Vigilant Insurance Company with liability limits of \$10,000,000 per loss.

3. What periodic publications do you distribute to your clients? How frequently?

Clients receive several publications from Mercer designed to keep them up to date on economic and industry trends that could impact their Funds. In addition to quarterly Capital Market Outlook, DB and DC Performance Summaries, and periodic newsletters on Real Estate, Hedge Funds and Private Equity Mercer consultants and researchers publish white papers and articles which are shared with clients. Below is a list of recent articles.

Date	Title	Description	Author
March 2010	DC Connections	Bridging the Knowledge Gap: Improving Participant Understanding of DC Plans	Mercer
February 2010	Private Equity Secondaries: Considerations for 2010	Provides background information on secondary investing within private equities; expresses Mercer's house view on secondaries	Sanjay Mistry and Divyesh Hindochina
February 2010	The Case for Global Real Estate Securities	Discusses the viability of this asset class as a long-term investment option for clients	Michelle Reuter
February 2010	Perspectives on Alternative Investments	Collection of articles that examine both the challenges and opportunities in alternatives in the postrecession climate	Mercer
January 2010	Top 10 New Years Resolutions for DC Plans	Checklist for employers as they re-evaluate DC plans and related responsibilities	Mercer

Date	Title	Description	Author
January 2010	Quarterly Pensions Update – Year End	Reviews changes in market indicators that most affected pension plans in 2009	Mercer
November 2009	Melbourne Mercer Global Pension Index	Objectively compares retirement income systems	Mercer
October 2009	Introduction of Barclay's Capital U.S Aggregate Float Adjusted Index	Explains new aggregate bond index that reflects the Fed's quantitative easing program	Mercer
October 2009	Quarterly Pension Update	Reviews changes in market indicators that most affected pension plans in Q3 2009	Adrian Hartshorn
October 2009	Recapitalization & recovery in the REIT market	Compares the current rebound in REITs with the REIT cycle of the 1990s	Michelle Reuter and David Nix
October 2009	Target Date Fund Asset Allocation	Survey of off-the-shelf target date fund asset allocations	Louis Finney
September 2009	Responsible Investment and Fixed Income	Overview of issues related to the application of RI approaches to management of fixed income portfolios	Mercer
September 2009	The Psychology Behind Pension Plan Decisions	Focuses on how understanding member behavior can help sponsors and trustees structure their plans	Anna Rappaport and Simon Pearce
September 2009	Introduction of Barclays U.S. Aggregate Float Adjusted Index	Explains the composition of new aggregate bond index and its potential use	Alan Papier and Mark Phelps
September 2009	Quarterly hedge fund update: The only constant is change	Summary of changes in hedge fund activity	Mercer
September 2009	Barclays Capital - Index Float	Discusses changes in the Barclays Capital Aggregate Index	Alan Papier and Mark Phelps
September 2009	The Public-Private Investment Partnership	Explores the role of PPIPs as an option for clients seeking an opportunistic investment in a securitized market	Alan Papier
July 2009	Improving Target Date Lifecycle Funds	Explains the reality of participant withdrawal rates and the implications for target date glidepath construction	Terry Dennison

Date	Title	Description	Author
July 2009	DC Connections	Unprecedented times for DC plans	Mercer
July 2009	Riders on the storm – Re-examining the case for boutique managers	Discusses the differentiating characteristics of boutique managers and drivers behind their growth	David Scobie

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H. Fees

1. **Please provide a proposed annual fee schedule to encompass all of the items listed under the scope of services for the 3-year period of the contract.**

We would propose a flat fee of \$175,000 per year, which includes all of the items listed under the scope of services for the 3-year period of the contract.

2. **In addition, provide a separate fee schedule for any additional services you could provide that would not be done on a regular or at least annual basis.**

Services provided by Mercer's Sentinel Group and Responsible Investing, as described in section 5 question #1, would be priced separately and determined by the complexity of scope.

7

I. Proposer's Warranty

The Proposer's Warranty must be completed and submitted with the Proposal.

PROPOSER'S WARRANTY

The following authorization must be included with the response to this Request for Proposal:

1. I am an officer of the organization.
2. I have been specifically authorized to offer a proposal in full compliance with all requirements and conditions as set forth in this Request for Proposal.
3. I have fully read and understand the Request for Proposal and have full knowledge of the scope, nature, quantity and quality of work to be performed. I have carefully prepared the proposal upon the basis thereof and state that the amounts set forth in this proposal are correct and that no mistake or error has occurred in this proposal or in the computations. I agree to make no claim for reformation, modification, recession or correction of this proposal after the scheduled closing time for the receipt of proposals.
4. If this proposal is accepted, a contract will be issued as proposed, subject to any revisions which may be mutually agreed upon by the Board and the Proposer.

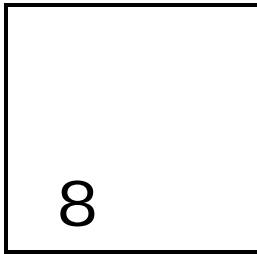
Mercer Investment Consulting, Inc.
Firm Name

Submitter's Name: Jeffrey C. Boucek

Title: Principal

Signature: 

Date: May 28, 2010



J. Attachments

1. Attach a sample quarterly report to the Proposal.
2. Attach your standard contract.
3. Attach your most recent ADV Form. Part II.

9

Appendix

Exceptions to General Terms and Condition

Section 2

We would like to include language clarifying that the Contractor's indemnification obligation: (A) should only apply to the Board and its officers and employees; (B) should only extend to damages proximately caused by or arising out of the gross negligence or bad faith of the Contractor or its agents, servants, or employees in the performance of services under the Contract; (C) should only be with respect to reasonable attorney's fees; and (D) should not be applicable to the extent any liability, claims, demands, fines, fees, expenses, penalties, suits, proceedings, actions and costs of actions are attributable to the negligent or wrongful acts or omissions of an indemnified party. In no event should the Contractor be liable in connection with the services or the Contract for any losses resulting from: (1) acts or omissions by any investment manager, custodian or other third party, (2) any inaccuracy or incompleteness of the data to be provided by the University or its representatives, or (3) indirect, special, punitive, consequential or incidental damages.

Section 6

We would request the revision of the conflict of interest statement to (A) affirm that the retention of the Proposer shall not cause any actual and material conflict of interest that remains uncured or unmitigated; and (B) to include an acknowledgement from the Board that the Proposer's Form ADV Part II has been received, and the disclosures regarding conflicts of interest therein have been reviewed.

Finally, we expect to have the right to review and negotiate the terms and conditions of the actual agreement if awarded this contract by the Board.

Disclaimer

Important notices

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This contains confidential and proprietary information of Mercer and is intended for the exclusive use of the parties to whom it was provided by Mercer. Its content may not be modified, sold or otherwise provided, in whole or in part, to any other person or entity, without Mercer's written permission.

The findings, ratings and/or opinions expressed herein are the intellectual property of Mercer and are subject to change without notice. They are not intended to convey any guarantees as to the future performance of the investment products, asset classes or capital markets discussed. Past performance does not guarantee future results.

This does not contain investment advice relating to your particular circumstances. No investment decision should be made based on this information without first obtaining appropriate professional advice and considering your circumstances.

Information contained herein has been obtained from a range of third party sources. While the information is believed to be reliable, Mercer has not sought to verify it. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability (including for indirect, consequential or incidental damages), for any error, omission or inaccuracy in the data supplied by any third party.

This does not constitute an offer or a solicitation of an offer to buy or sell securities, commodities and/or any other financial instruments or products.

Research ratings

Mercer's rating of an investment strategy signifies Mercer's opinion as to the strategy's prospects for outperforming a suitable benchmark, on a risk-adjusted basis, over a full market cycle.

Strategies rated A are those assessed as having above average prospects. Those rated B are those assessed as having average prospects. Those rated C are assessed as having below average prospects. B+ is an intermediate category in between A and B. If the rating shown is N, or if no rating is shown at all, this signifies that the strategy is not currently rated by Mercer. Some strategies may carry an additional rating (eg. T (Higher Tracking Error), P (Provisional), and W (Watch)). For some product categories, Mercer does not maintain formal ratings but instead

assigns a Preferred Provider status. For the most recent approved ratings, and a fuller explanation of their meanings, refer to your Mercer representative or to the Mercer Global Investment Manager Database (GIMD™) as appropriate.

The term “strategy” is used in this context to refer to the process that leads to the construction of a portfolio of investments, regardless of whether it is offered in separate account format or through one or more funds. The rating assigned to a strategy may or may not be consistent with its historical performance. While the rating reflects Mercer’s expectations on future performance relative to its benchmark, Mercer does not provide any guarantees that these expectations will be fulfilled.

Mercer does not generally take the investment management fees of a given manager into account in determining ratings. Managers’ fees charged for a specific strategy will often vary among investors, either because of differing account sizes, inception dates or other factors. Mercer does not perform operational infrastructure due diligence or personal financial or criminal background checks on investment managers.

Mercer’s research process and ratings do not include an evaluation of a manager’s custodian, prime brokerage, or other vendor relationships or an assessment of its back office operations. Research is generally limited to the overall investment decision-making process used by managers.

Mercer’s investment consulting business rates and/or recommends strategies of investment managers, some of whom are either Mercer clients, Mercer affiliates or clients of Mercer’s affiliates. The services provided to those managers may include a broad range of consulting services as well as the sale of licenses to use Mercer’s proprietary software and databases and/or subscriptions to Mercer’s investment forums. Policies are in place to address these and any other conflicts of interest that may arise in the course of Mercer’s business. This is only a summary of Mercer’s conflicts of interest. For more information on Mercer’s conflict of interest policies, contact your Mercer representative.

Universe notes

Mercer manager universes are constructed using data and information provided to Mercer either directly or via third party providers. The universes are intended to provide collective samples of strategies that best allow for robust peer group comparisons to be conducted over a chosen timeframe. Mercer does not assert that the peer groups are wholly representative of and applicable to all strategies available to individual investors. Universe distributions are calculated based on the data that was in our database at the time that the universe was constructed, and may therefore change over time due to additional information supplied by an investment manager or revisions to data.

MERCER



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