

Quarterly Investment Perspective

Outcomes

A Letter From Marc D. Stern, Chief Executive Officer-elect

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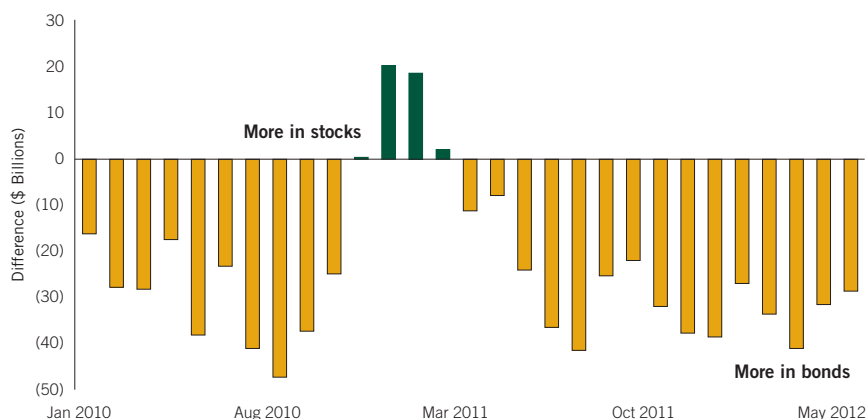
Dear Client,

In a mid-June poll of individual investors, ambivalence reigned. Nearly 33% of respondents described themselves as bullish on the equity outlook for the next six months, 31% as neutral, and 36% as bearish.

Investors' actions, though, are often more revealing than their survey responses. Mutual fund investors have favored bonds over stocks for 15 consecutive months — a rare pattern historically (Exhibit 1). If high-quality bonds were yielding their long-term average of 5%, this preference might be understandable. But with a five-year U.S. Treasury note yielding just 0.6% today, the primary rationale seems to be fear.

Exhibit 1: Fund Flows

Stocks vs. Bonds



Reflects monthly ICI mutual fund data as of May 31, 2012.
Source: Investment Company Institute

A More Balanced View

While the macro concerns that have been weighing on investors' minds of late are significant, media coverage of recent developments is often overwrought with anxiety.

Our careful study of the global landscape spotlights both negative and positive forces at work. On one hand, European policymakers are struggling to tighten linkages across a wavering currency union, job markets have slackened around much of the globe, and the fractured

U.S. political system appears unable to govern. On the other hand, corporate profits are sustaining record highs, interest rates and inflation remain abnormally low, and consumers are increasingly benefiting from falling energy prices and reduced debt.

Given this backdrop, our expectations for the second half of the year are as follows:

- The evolution of the euro-zone crisis causes more market volatility, but key European policymakers demonstrate their commitment to preserving the euro — as they did during the summit in late June;
- The U.S. election season takes center stage, contributing to market uncertainty, but a short-term agreement between Congress and the president takes the “fiscal cliff” scenario off the table;
- Even as worldwide economic growth remains tepid, a recession is averted as resilient consumers spark increasing auto sales and a gradual housing recovery; and
- Strong corporate profits make owning companies attractive — particularly compared to owning bonds — enabling positive returns from many equities.

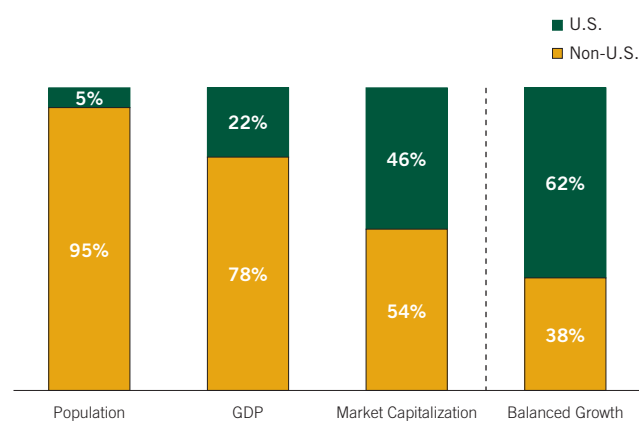
We remain convinced that our strategy of balancing growth and protection in our portfolios is appropriate for today’s environment. We have nearly 60% of our flagship Balanced Growth portfolio in growth-oriented areas. In many ways, recent investor anxiety has opened up improved return potential. For example, over time we would far prefer a basket of ConocoPhillips, Microsoft, Sanofi, and Unilever shares yielding 4% to a basket of 10-year bonds issued by the U.S., France, Germany, and Japan yielding 1½%.

At the same time, though, we are taking into account the unusual risks that have developed in the political and macroeconomic realm. Nearly 40% of the Balanced Growth allocation is in diversified strategies including high-quality bonds, credit instruments (e.g., high-yield bonds, mortgage bonds, convertible bonds), and select currencies with manageable government debt and strong trade positions.

Geographic Focus

A key aspect of our strategy is investing globally. Non-U.S. markets represent huge proportions of world population and economic activity (Exhibit 2). That’s why about 38% of our overall holdings are currently outside the U.S. Yet after two years of U.S. markets leading the way — Treasury buyers have pushed bond prices up and bond yields down, the U.S. dollar has gained against most currencies, and U.S. stocks have outpaced their overseas counterparts — an increasingly heard question is, why not invest more in the U.S.?

Exhibit 2: Regional Exposure



Population as of December 31, 2011. World gross domestic product is as of March 31, 2012. Reflects Bessemer’s Balanced Growth portfolio’s regional exposure as of June 30, 2012. Exposures exclude hedge funds, cash, and real assets. The **Bessemer Balanced Growth Portfolio** represents a model portfolio comprising Large Cap Core, Large Cap Strategies, Global Opportunities, Global Small & Mid Cap, Real Return, Fixed Income, Strategic Currency, and three Bessemer hedge funds of funds. Investments cannot be made directly in this model portfolio. Relative weightings vary over time. Source: World Bank

In truth, we are finding many attractive investment opportunities in the U.S. — from stocks in sectors including technology, consumer, and healthcare, to a variety of high-yield bonds and other credit instruments.

Yet the breadth and depth of the country’s economy do not offer investors a panacea. Two factors figure prominently in our thinking.

First, many U.S. companies operate and compete on a global basis. Therefore, they are not immune to developments in Europe and Asia. For example, Apple earns over half of its profits outside the U.S.

Second, the U.S. has significant fiscal problems: Debt as a percentage of GDP tops 100% (includes all federal debt outstanding) and entitlement programs are becoming an unsustainable burden. We expect rising Treasury bond yields and a falling U.S. dollar over the next couple of years to catalyze policymaker action, including some form of the sensible medicine prescribed by the Simpson-Bowles Commission (e.g., reining in entitlement programs, cutting discretionary spending, restructuring the tax code).

U.S. difficulties may be out of the limelight right now, but that could change quickly. The philosophical divide in Washington is daunting and the acrimonious nature of the debate is discouraging. The warning of “America’s governing and policymaking becoming less stable, less effective, and less predictable” within the August 2011 Standard & Poor’s downgrade of the U.S. credit rating rings just as true today. Another debt-ceiling debate about six months from now promises to be contentious, particularly at a time when the government is taking in revenues totaling 16% of GDP while spending 24% — leading to a \$1 trillion annual deficit.

Beyond the outlook for the U.S., the other consideration that compels us to invest outside of the U.S. is the simple fact that many of the world’s premier companies are listed on non-U.S. exchanges and currently represent attractive return potential. So

even as discussions by our portfolio teams acknowledge the inherent risks, we invariably come back to the reality that there are many well-positioned global companies in energy, healthcare, consumer products, and other sectors that are now trading at unusually compelling valuations. One example would be Sanofi, a French pharmaceutical company that derives nearly three-quarters of its revenues from outside of Europe. Despite a diversified business and sizeable cost reduction program that have allowed the company to withstand patent expirations of several profitable drugs, Sanofi trades at 10 times earnings and provides a 4.6% dividend yield.¹

Moreover, the fiscal position of the euro zone versus the U.S. and Japan provides Europe with potential to persevere (Exhibit 3). Germany enjoys benefits from the euro, and we are convinced it will ultimately provide sufficient financial resources to enable the currency to avoid what would be a very painful disintegration.

None of this is to say we are loading up on Europe, which represents just 16% of Balanced Growth exposure, one-quarter that of the U.S.

Our global investment philosophy lets us tap into diverse markets and spread risk more widely. Again and again, we are reminded that market leadership swings back and forth (Exhibit 4). A top-performing market one year can be a laggard the next year.

Exhibit 3: Fiscal Positions

	Euro Zone	Japan	U.S.
GDP (\$ Trillions)	\$12.9	\$5.9	\$15.2
Current Account (% of GDP)	0.4%	2.1%	(3.2)%
Gross Federal Debt (% of GDP)	89%	232%	104%
Budget Deficit (% of GDP)	(3.9)%	(8.3)%	(6.8)%

As of March 31, 2012.
Source: International Monetary Fund

¹Data as of June 26, 2012.

Exhibit 4: U.S. Market Does Not Always Win

Rank	2006	2007	2008	2009	2010	2011	2012 YTD
1	China	China	Japan	Australia	South Korea	U.S.	U.S.
2	Germany	Germany	Switzerland	China	Canada	U.K.	Germany
3	France	South Korea	U.S.	South Korea	U.S.	Switzerland	U.K.
4	Australia	Australia	France	Canada	Australia	South Korea	South Korea
5	U.K.	Canada	Germany	U.K.	Japan	Australia	Switzerland
6	Switzerland	France	Canada	France	Switzerland	Canada	China
7	Canada	U.K.	U.K.	Germany	U.K.	Japan	France
8	U.S.	Switzerland	Australia	U.S.	Germany	France	Japan
9	South Korea	U.S.	China	Switzerland	China	Germany	Australia
10	Japan	Japan	South Korea	Japan	France	China	Canada

As of June 30, 2012. Reflects top 10 markets based on S&P Global Broad Market Index market capitalization. Returns are in U.S. dollars.
Source: FactSet, Standard & Poor's

Performance

While our global exposure has at times worked against us, it has worked for us more often than not. This give-and-take was on display in the first six months of 2012.

In the first quarter, stock markets worldwide surged, with both the S&P 500 Index and global stocks up sharply on greater optimism toward Europe, the U.S. economy, and stimulative central bank actions around the world. But in the second quarter, resurfacing troubles in Europe and weaker global economic growth led the “safe haven” U.S. to fare significantly better than Europe and many emerging markets.

This environment reaffirmed our strategy of maintaining a balance of growth and protection. In the first quarter, our protective positioning restrained our upside, despite positive results in all of our portfolios. In the second quarter, our protective measures helped cushion the effect of falling global equity markets.

For the six-month period, our performance was hurt by our exposure to non-U.S. markets, our underweight of bonds and shorter duration, as well as weakness in commodity prices. However, our

overweight of defensive-growth holdings proved beneficial, providing protection in the second-quarter downturn and year-to-date returns that are competitive with equities. Moreover, our global equity holdings performed generally in line with their benchmarks.

In such a complex environment, we are keeping at the forefront of our minds our dual mandate of participating in stronger market periods while seeking to limit losses in more difficult times.

Leadership

During the second quarter, we were pleased to name Rebecca H. Patterson as chief investment officer beginning in mid-July.

Rebecca was chief markets strategist at J.P. Morgan Asset Management, where she also headed the global Client Advisory Group and was a member of the Private Bank’s Investment Committee. Rebecca joined J.P. Morgan 15 years ago as a research analyst in the investment bank, eventually rising to become global head of Foreign Exchange and Commodities for the Private Bank before assuming her most recent role. She has had extensive experience advising institutional and private clients on their investment portfolios and asset allocation.

A team of senior Bessemer personnel led the CIO search, defining key attributes, working with a leading search firm to identify qualified investment professionals from a wide range of firms, and conducting in-depth interviews with the most promising candidates.

We are convinced Rebecca's broad investment knowledge, global experience, strong communication skills, and collaborative leadership approach will make her an excellent CIO for Bessemer and a strong leader of the investment team in New York and London. She will work closely with Head of Investment Strategies Peter J. Langas, Head of Fixed Income David W. Rossmiller, and our experienced team of portfolio managers in overseeing asset allocation, strategic portfolio direction, and research.

As I prepare for the transition to chief executive officer at the end of this year, I've had the opportunity to reflect on my nearly eight years as CIO. First and foremost, I'm honored by the caliber of the professionals that I work with each day. A commitment to working collaboratively ensures

our investment decisions are the product of collective insights. Second, our firm's structure allows the team to make recommendations based solely on what is right for clients — a rarity in the financial industry. And third, we now have a highly flexible investment platform that enables us to invest anywhere at any time by tapping into skilled professionals regardless of where they work.

Looking ahead, the evolution of our platform will continue as part of a tireless pursuit of ways to enhance our performance. The world isn't standing still, and neither will we. At the same time, we believe it is essential to adhere to our disciplined, research-driven investment approach. I am confident it will continue to enable us to deliver competitive long-term results. I would like to thank our clients for the trust they have placed in us.

Sincerely,

A handwritten signature in black ink, appearing to read "Marc D. Stern". The signature is fluid and cursive, with a prominent "M" and "S".

Marc D. Stern
Chief Executive Officer-elect

The Investment Roundtable: Mapping the Possibilities

Edward W. Aw, Head of Quantitative Strategies

Peter J. Langas, Head of Investment Strategies

Patrick Yoh, Senior Client Account Manager

No matter how wealthy you are, you have concerns about the future. In this roundtable, two senior Bessemer investment professionals and a Senior Client Account Manager describe how we can help clients make more informed decisions about their wealth plans.

Q: What do clients tend to worry about the most?

Yoh: There's a litany of concerns — providing financial security for a spouse and children, managing the risk of a concentrated holding, income- and estate-tax planning, engaging the next generation, and more. The wide range of concerns reflects the diverse backgrounds of the individuals and families we work with, from successful entrepreneurs and senior executives at global firms to wealthy families around the world.

Langas: While clients have specific objectives when it comes to managing their wealth, many of their core concerns can be boiled down to a few questions:

- Do I have enough money to maintain my current lifestyle?
- How much risk do I have to take to meet my spending needs?
- Can I afford to give money to my children and still maintain my lifestyle?

Yoh: The difficulty lies in the fact that every wealth decision has implications for the future, which prompts a host of “what ifs”: What might happen if I invest more heavily in bonds? What if I move to a state with a different tax rate? What if I increase my spending? What if I take greater distributions from my IRA? What if I give away more to charity?

Q: Can Bessemer answer these “what if” questions?

Yoh: With perfect certainty, no. No one can. But we *can* help quantify the costs and benefits associated with these decisions using the Implications Model, a proprietary analytical tool that we developed to show a range of potential outcomes one could expect to occur within a portfolio. Using a financial modeling technique known as Monte Carlo analysis, the model takes the unique circumstances of a client — spending requirements, current and future income, tax rates, time horizon, and more — and combines those with realistic assumptions about projected asset class returns to simulate thousands of possible outcomes and quantify their likelihoods. We can then compare different scenarios (“What if I spend \$400,000 per year rather than \$500,000?”) side by side to see the trade-offs of a decision.

Q: What's the point of quantitative modeling? Didn't all of these models fail to predict the 2008 financial crisis?

Aw: It depends on what you mean by quantitative modeling. Some “quant” models are designed to be predictive — and yes, many portfolios built on these models suffered painful losses during the depths of the recent financial crisis. But the Implications Model isn't a tool to predict the future. Instead, it is designed to help clients with key decisions involving portfolio asset allocation, the understanding of risk, and the development of an enduring investment plan. The model maps out possibilities generated by a set of assumptions for 35 different asset classes to create a wide range of potential market returns. An event like the market downturn in 2008 — while rare — is actually included as a potential simulated outcome in this model.

Q: How do you arrive at an assumption for an asset class's expected returns?

Langas: It all begins with the work of Bessemer's asset allocation committee. This group of six senior investment professionals debates our outlook for fundamental market forces, such as economic growth, inflation, and interest rates.

For instance, after analyzing historical data, accounting for lasting shifts in the world economy, and debating the most likely path forward, we might reach a consensus that 1) the U.S. economy is likely to grow an average of 3% per year over the long term, 2) inflation will run roughly 3% annually, and 3) stock dividend yields will be about 1.5% per year. Once these "building blocks" are in place, we then can infer how these dynamics would affect the potential returns for U.S. large cap stocks.

The expected returns of U.S. large cap equities then serve as the building block for other asset classes. If U.S. large cap stocks were to return 7.5% annually over the long term, then how much greater return might an investor expect from emerging market stocks? Mid cap stocks? Small cap stocks? Of course, with greater potential returns comes greater risk, so we also debate the volatility that may correspond with each asset class. For example, U.S. large cap stocks might have an expected volatility of 15% (meaning that, two-thirds of the time, the returns will likely be within 15 percentage points of the long-term average), while global small cap stocks might have more volatility — say, 20%. We use a similar methodology for bonds, hedge funds, and commodities.

The end result is a series of assumptions built on one another and ultimately tied to underlying fundamental economic forces.

Q: So these assumptions aren't backward-looking?

Aw: For returns and volatility, no. Of course, we use history as a guide in formulating assumptions, but then we assess whether the asset class's trajectory is

likely to change going forward. For example, if history were the sole gauge, 30-year U.S. Treasury bonds would be expected to produce average annual returns of 7.2%. Yet the U.S. has become increasingly burdened by fiscal problems and political inefficiency, which suggests that these bonds may offer lower returns going forward. In fact, given that today's yields are much lower than their long-term average (Exhibit 5), it's a mathematical certainty that future returns cannot match those of the last three decades. We therefore factor these things into the model's assumptions.

Exhibit 5: Bond Yields at Historic Lows
30-Year U.S. Treasury Bond



*Since 1953.
Source: FactSet

However, assumptions for asset class correlations — quantifying how asset classes behave compared to one another in the same environment — are based more directly on historical data.

Q: What if the current environment is very different from the one implied by the long-term forecast? Do you account for that?

Langas: Yes, our committee formulates both long- and short-term assumptions about how an asset class might behave. For instance, although we might expect cash to yield 3% for investors over the long term, given today's historically low interest rates, we might determine that the most likely short-term return for cash is 0.5%. As another example, for

the yield curve we forecast a long-term, “normal” curve based on our expectation for economic growth, inflation, and the cost of capital, but we also take into account the fact that, by historical standards, yields are currently very low on both ends of the curve. These two tiers of assumptions are then factored into every simulation.

Here’s another way of looking at the building blocks approach: Thinking about cash returns leads to certain expectations for bond returns, which then helps drive our thinking about stock returns, and so forth. By building our assumptions for asset classes off each other and by incorporating both short- and long-term expectations into our analysis, we ensure an internal consistency. Everything fits together.

Q: What does “simulating outcomes” involve?

Aw: The model uses details about a client’s particular circumstances and our assumptions to *simulate* 10,000 potential outcomes — in other words, to produce 10,000 different paths that a client’s investments could take — and then maps all of them out. Remember, the Implications Model can’t predict the future. The *actual* path these asset classes will take is quite unpredictable; in a given period, stocks could fall sharply, rise quickly, or stagnate — and one’s portfolio could perform similarly. But by looking at such a large map of outcomes, we can gauge the probabilities of various outcomes occurring. Then we can compare those probabilities against those of a different scenario.

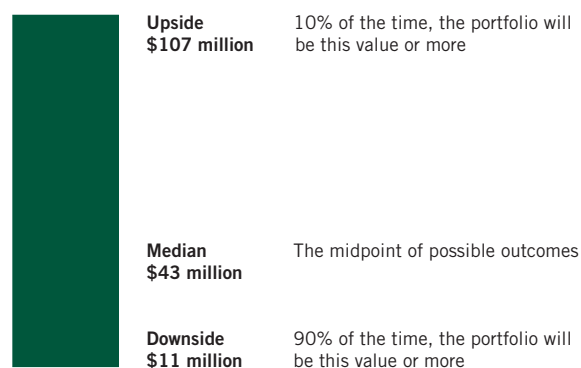
Q: Can you give an example?

Yoh: Consider a husband and wife in their early sixties with a \$20 million portfolio invested along the lines of Bessemer’s Balanced Growth model asset allocation in a broad mix of stocks, bonds, commodities, currencies, and hedge funds. They recently retired to enjoy a lifestyle that involves spending about \$500,000 a year, which is anticipated by the model to grow with inflation. The question they worried about was whether they could maintain their standard of living for the rest of their lives.

From the Implications Model analysis, they learned of a potential range of final portfolio values over a 30-year time period based on the relevant inputs and assumptions. In 80% of the outcomes, they would have values ranging from \$11 million (the downside case, or 10th percentile) to \$107 million (the upside case, or 90th percentile), with a median outcome (50th percentile) of \$43 million (Exhibit 6). In other words, there was a 90% probability that they would have an ending value of more than \$11 million and a 10% probability of having more than \$107 million. The median shows the midpoint; in half the outcomes, the ending portfolio value will be more than \$43 million, and in half the outcomes it will be less.

Exhibit 6: Hypothetical Wealth Accumulation

- \$20 million portfolio
- 30-year time horizon
- Assumes \$500,000 annual spending (grown with inflation)



The information shown reflects a simulation of potential outcomes from Bessemer’s Implications Model, which is based on a technique known as Monte Carlo analysis. For important information regarding the Implications Model, please see page 12.

The range of potential outcomes was quite large, which didn’t add a lot of clarity. But the analysis went further to reveal a key point: There was only a small chance that their current spending rate would lead them to run out of money in 30 years. The odds were very much in their favor that they could maintain their lifestyle. But, they wondered, what if they ended up spending more? We ran the analysis again assuming they spent \$600,000 per year, grown with

inflation. In that case, the model indicated that the chances of depleting their portfolio increased, but to a probability still less than 10%. Knowing these odds, they continued to feel it was prudent to target spending the lower amount, but they were reassured that the analysis suggested they had some flexibility.

Q: What about a client who has multiple wealth goals — can you help with that?

Yoh: Yes. Here's an example: A husband and wife in their mid-fifties sold their publishing business earlier this year for \$50 million after taxes. Like many wealthy families, they had three long-term goals:

- Maintain a certain standard of living during their lifetimes;
- Pass wealth to their children and grandchildren; and
- Pursue their philanthropic interest (supporting early childhood education programs).

We began by helping them determine how much wealth they could pass on without compromising their own spending needs during their lifetimes. As a starting point, we recommended they consider taking advantage of the current favorable environment for making gifts and set aside a sizeable amount now. In 2012, a husband and wife can make up to \$10.2 million in gifts (\$5.1 million per person) that are exempt from gift, estate, and generation-skipping transfer (GST) taxes. However, that exemption is scheduled to revert to \$2 million on January 1, 2013 (\$1 million per person).

Knowing this, the couple was comfortable putting aside \$10 million for their children and grandchildren, but wondered whether they could still afford to contribute \$5 million to charitable causes *and* maintain their desired lifestyle, which they felt meant spending somewhere between \$750,000 and \$1 million a year.

We used the Implications Model to help answer that question. Assuming a starting portfolio value of \$35 million (the original \$50 million minus the

\$15 million set aside for their family and charities), we simulated what would happen if they spent \$1 million per year under two different scenarios — one with a Balanced Growth asset allocation (which seeks to balance growth and protection), and the other with a Balanced allocation (which favors protection). In both cases, they faced a more than 5% probability of running out of money by year 30. This was too much of a risk for them, so they ruled out spending that much.

Then we ran the same simulations, but assumed spending of only \$750,000 per year (grown with inflation). In this case, the Implications Model showed there was much less chance that they would run out of money with either asset allocation.

Q: How did they decide between the two asset allocations?

Yoh: When we delved deeper into each allocation, we saw that the Balanced Growth had significantly better median and upside scenarios than the Balanced allocation, with similar downside scenarios. This came at a cost, however: Our analysis showed that there was a 5% chance that the Balanced Growth allocation would incur a peak-to-trough loss of at least 25% at some point, whereas the Balanced allocation's similar peak-to-trough loss figure was only 18%.

The question, then, was how steep a loss could the couple potentially tolerate? After we discussed it at length, they opted for the Balanced Growth allocation, which gave them a higher probability of passing on significant wealth to their children later on.

Q: What about the amount they set aside for their children and grandchildren?

Yoh: Working with their outside attorney, we helped them fund a trust with \$10 million. Because this amount fell within their GST tax exemption, none of it was subject to gift or GST taxes. The children were the beneficiaries during their lifetime, with the remaining assets passing to the grandchildren.

Because the two children were already successful entrepreneurs in their own right — and would likely inherit more from their parents in the future — the parents didn't anticipate that the trust would make gifts to the children in the near term. The more likely scenario would be for the grandchildren to inherit the assets.

Using the Implications Model, we helped them determine which asset allocation was most appropriate for the trust. Because the children weren't likely to draw from the trust in the near term — and could therefore tolerate a more aggressive approach — we compared the Balanced Growth allocation to a Growth allocation, which has a higher allocation to stocks and little to no bonds. In the median scenario, over 30 years the trust would grow over 20% more under Growth than Balanced Growth. Though the Growth allocation appeared to have a greater probability of posting losses in a given year, this was less of a concern to them because no one would be relying on the trust's assets in the early years. As a result, the couple decided that the Growth allocation would help them best achieve their goal of transferring the most wealth to future generations — free of taxes.

Q: Did you also help them pursue their charitable interests?

Yoh: Yes. With the help of the clients' existing advisors, we recommended funding a private foundation with the \$5 million they had set aside for early childhood education charities. This would not only allow them to develop a charitable legacy but also give them a large income tax deduction that could partially offset the gain they incurred from selling their company earlier in the year.

After discussing options for the foundation's spending policy, the couple felt most comfortable paying out 5% of the foundation's assets each year (the minimum required by law). However, they were unsure whether to invest conservatively or more aggressively. We used the Implications Model to highlight the trade-offs.

As it turned out, the simulated values of the Growth allocation at the end of 30 years would surpass those of Balanced Growth and Balanced in all three scenarios the model highlighted: downside, median, and upside.

Q: So the most aggressive allocation would seem to be ideal for them.

Yoh: At first glance, yes. But digging deeper into the numbers, we could highlight the potential costs of this approach. For instance, the Growth allocation had a much higher probability of suffering significant peak-to-trough losses than the Balanced Growth and Balanced allocations (Exhibit 7). This is where the foundation's purpose was particularly relevant: When a foundation's charitable gifts are a fixed percentage of the previous year's asset value, an outsized loss could be very hard on charities that depend on stable giving from year to year. It could also undermine the family's mission, so the Growth allocation was less attractive to them.

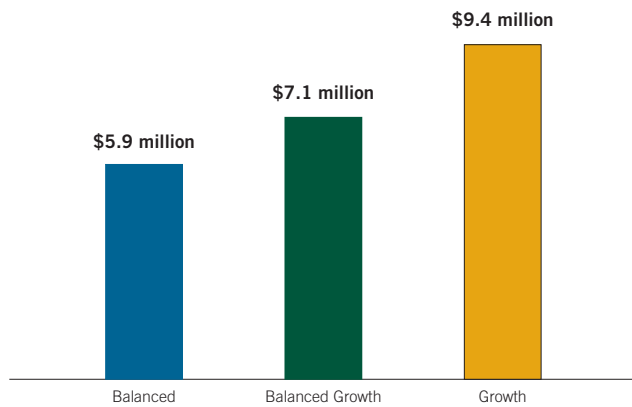
When we discussed the trade-offs between a Balanced Growth and Balanced allocation, the family felt that the possible decline in Balanced Growth — although slightly higher than in Balanced — would likely be manageable, particularly considering the upside the allocation appeared to offer. In the median case, the portfolio with a Balanced Growth allocation would potentially put a cumulative \$1 million more in the hands of charities over a 30-year period than the Balanced allocation.

Q. Does the model show the expected paths for Bessemer portfolios?

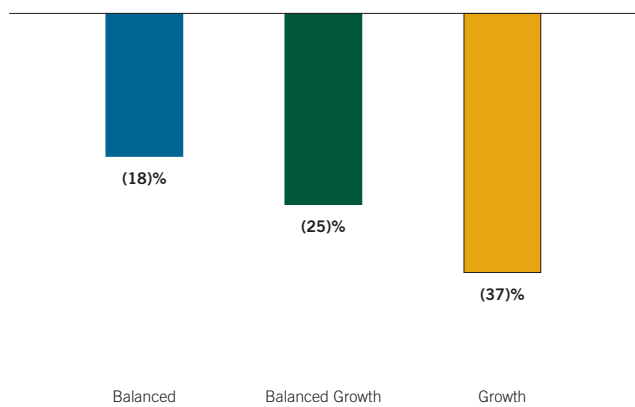
Langas: No, the assumptions the Implications Model uses are based on broader asset classes like large cap stocks or high-yield bonds, not the specific investments held in Bessemer's recommended model portfolios.

Exhibit 7: Comparing Benefits and Costs**Greater Potential Upside ...**

Hypothetical Median Ending Portfolio Value

**... Comes at a Cost**

5% Chance of Loss This Great over 30 Years



\$5 million initial portfolio. Assumes yearly distributions of 5% of previous year's assets over 30-year period.

Q: Does the model factor in the impact of taxes?

Aw: Absolutely. The model accounts for tax rates in every jurisdiction for clients. Moreover, we determine short- and long-term turnover assumptions associated with different asset classes to estimate what sort of tax bill might accompany them. On top of that, the model differentiates between taxable accounts and tax-deferred accounts such as an IRA. It also factors in required minimum distributions from those accounts.

Q: What's the most important takeaway about the Implications Model?

Langas: It isn't a means of forecasting the future or a guarantee of performance. Nor does it offer a black-and-white solution. Instead, the Implications Model is a way of assessing the trade-offs between different scenarios so that clients can make more informed decisions about their plans. In other words, it allows them to survey a range of possible outcomes they could experience and weigh the potential ramifications: Is it worth taking this much more risk to possibly achieve that much more growth? Am I comfortable with the potential consequences of taking less risk?

Yoh: Although probabilities and statistics will never replace sound judgment, they can give clients a sharper insight into the many financial decisions they face over the course of their lives. With every change in circumstance — a new grandchild is born, a company is sold, a family moves — there comes the need to revisit the family's wealth plan to make sure it is keeping them on the path to meet their goals. This is where the model is most effective. We look at it, therefore, not as an isolated financial tool but as an interactive part of an ongoing relationship, a starting point for important discussions with clients about the most appropriate wealth plan for them.

This material reflects the views of Bessemer Trust and is for your general information. It does not take into account the particular investment objectives, financial situation, or needs of individual clients. This material is based on information obtained from various sources that Bessemer believes to be reliable, but Bessemer makes no representation or warranty with respect to the accuracy or completeness of such information. Views expressed herein are current only as of the date indicated, and are subject to change without notice. Forecasts may not be realized due to a variety of factors, including changes in economic growth, corporate profitability, geopolitical conditions, and inflation. Any discussion of specific securities is intended merely for illustrative purposes and is not a recommendation. Past performance is no guarantee of future results.

Important Information Regarding Bessemer's Implications Model

The Bessemer Trust Implication Model is a proprietary tool that Bessemer believes can help clients make better informed decisions regarding the tradeoffs inherent in various investment plans.

At Bessemer, we believe that using realistic assumptions for asset behavior is prudent. The returns on which our assumptions are based represent long-term returns of a representative index for each asset class. They are not actual returns of any Bessemer portfolios. In some cases our asset assumptions are below long-term historical returns. We do this not in an attempt to predict the future value of a client's portfolio, but to assure that their understanding of portfolio risk and impact of spending is based on prudent and rational expectations. Further, while this analysis looks at portfolio values over a 10- to 30-year horizon, we suggest revisiting this analysis annually. To the extent the markets behave more positively than our assumptions, this can be factored in during the next analysis.

The model makes use of computational algorithms commonly known as "Monte Carlo simulation." This technique is based upon an underlying assumption that asset class returns are log-normally distributed around a "mean" or average expected return. This distribution or statistical variability is described by a measure commonly known as "standard deviation" or, in layman's terms, how much can a portfolio return differ from the long-term expected return. Further, the relationships between asset classes within the model are modeled using a statistical measure known as "covariance." Using these statistical measures of an asset class's likely performance pattern, a series of "random" trials are generated — each falling probabilistically within the statistical measures described above. The underlying assumptions of asset class mean returns, standard deviations, and covariance for the near term reflect Bessemer's view of current market conditions relative to the long-term view of each asset class. For the longer time horizon, the assumptions start with historical returns as a guide and then adjustments are made based on expectations of future global economic conditions. Other important inputs to the model are tax rates and turnover, which Bessemer estimates based on available information.

The final inputs to the model are driven by a discussion with our client. These include tax domicile, spending levels, and any periodic additions or withdrawals to the portfolio.

The Implications Model analysis is based entirely on the assumptions and calculations noted herein and therein. It is not intended as a forecast of future market conditions or returns or as a statement or guarantee of the results to be obtained by investing according to the asset allocation shown. Further, the purpose of the Implications Model analysis is an attempt to simulate a range of potential outcomes and the level of uncertainty in future portfolio values, rather than any specific future value. The simulated portfolio value range represents the range of results that fall within a statistical confidence band, but there is no guarantee that the values will not fall outside of this range of results.

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