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As the venerable institution marks its 100th year, Bessemer Trust remains focused on two imperatives—managing wealth and managing relationships.

From Left, Robert Elliott, Marc Stern, John Hilton

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INSIDE Bessemer

As the venerable institution marks its 100th year, Bessemer Trust's executive team remains focused on two imperatives—managing investments and managing relationships.

By Hannah Shaw Grove

John A. Hilton Jr.

Bessemer Trust is the largest privately held wealth management firm and widely recognized for its exceptional client service. No real surprise, given the firm's 100-year history catering to the needs of ultra-affluent families. Bessemer's three senior executives—John Hilton, Rob Elliott and Marc Stern—spoke at length with Hannah Shaw Grove, executive editor of Private Wealth, about their respective areas of responsibility and the opportunities ahead.

John A. Hilton Jr.

President and Chief Executive Officer

John Hilton joined Bessemer Trust in 1993 after nearly a quarter-century of financial services experience at Citibank and Merrill Lynch. He was appointed chief operating officer in March 2002 and assumed his current position in November of that year.

HSG: **What are the origins of Bessemer Trust?**

JAH: Bessemer has just begun its second century. The firm was founded in 1907 by Henry Phipps, a partner of Andrew Carnegie, to manage his and his descendants' wealth. In a letter to his five children, Mr. Phipps expressed a number of principles that have contributed to Bessemer's stability, continued independence and collaborative culture.

HSG: **Are the Phipps still involved with Bessemer?**

JAH: Very much so. Bessemer is managing the sixth generation of Phipps family assets, and the family still owns a majority of the economic interests and 100% of the voting stock. Other than our chairman and members of the board of directors, however, the Phipps family is not involved in day-to-day management of Bessemer.

HSG: **When and why did Bessemer begin to work with other families?**

JAH: Although the firm was not originally established to generate profits, the decision to open it to non-family members in the mid 1970s was ultimately driven by the cost of infrastructure. Rather than compromising the quality of the investment professionals, legal counsel and other specialists, the family and the Board sought a way to share the costs with a select group of substantial families with

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similar financial goals.

HSG: **Did that transition have a material impact on the firm's operations or priorities?**

JAH: No. From day one, Bessemer was committed to providing the same services to new clients as we had to the Phipps family for our first 70 years. Bessemer also committed itself to serving all clients equally, without any preferential treatment or access when it came to client services, investments or any other opportunity.

HSG: **Explain the decision to stay private and how you think that benefits your clients and your employees?**

JAH: The family still controls the future of the firm and is Bessemer's largest client. If there is any concern about the quality of the investment results or the service they receive, the Phipps will not replace their wealth management firm. They will replace the executive staff. That degree of client control and accountability can't be found at a public company.

Secondly, we believe we can serve our clients better as a private firm because we're not pushed to deliver quarterly earnings. We can make long-term decisions, even if they adversely impact our financial results on a short-term basis. Our clients aren't interested in instant gratification. Most of them have a multi-generational focus and this structure helps us align our interests very closely with theirs.

From an employee perspective, remaining private lets us do the things we need to do to help employees develop and to appropriately reward them. Our human capital is one of our greatest assets. By avoiding the turmoil that comes with corporate consolidations, we've enabled our employees to enjoy a real sense of stability. That is rare in our industry today.

HSG: **If not earnings, what barometer do the owners use to measure success?**

JAH: It's not that earnings are unimportant, but we understand the alternatives and weigh our choices carefully. If we increase Bessemer's earnings by 20%, for instance, that probably won't make a big difference in the lifestyle of the Phipps family. Imagine, however, if an investment in our human capital or infrastructure increased our portfolio returns by a percent or allowed us to come up with a new estate planning idea that saves tens of millions of dollars in taxes. Results like that are much more important to our owners—and to all of our clients.

HSG: **What is Bessemer's core competency?**

JAH: Our core competencies today are the same as they were 100 years ago: We manage wealth and we manage relationships. From that perspective, we have a simple business model. Clients initially sign on with us because of our competitive investment capabilities, and perceive this to be the nucleus of what we do. Over time, however, clients tend to gain a greater appreciation of our non-investment capabilities. They begin to more fully understand that wealth stewardship services, like educational programs and legacy planning, can be very important to their family's well-being.

HSG: **How does that manifest itself?**

JAH: Here is a recent example. A client for whom we manage hundreds of millions of dollars recently told me that it's our recognition of his concerns for the future that he values most. He is especially pleased that we have made a sustained effort to develop relationships with his spouse, his children and his grandchildren. Although there are any number of capable organizations that can manage his money, this client is impressed by our interest in helping his family benefit from their wealth beyond the most obvious financial aspects. He perceives this to be ingrained in our culture, and not simply another line item on a task list. For him and many other Bessemer clients, this distinction is not inconsequential.

HSG: **Has the expansion into non-investment services been recent?**

JAH: Expansion is probably the wrong word. Starting with the original family members, Bessemer has provided a broad range of wealth advisory services to clients for the firm's entire existence. Whether this refers to estate planning and insurance reviews or helping a client sell a business, establish a foundation or purchase a private jet—we've done it all. Services evolve, and go in and out of favor, but the core wealth-related needs of high-net-worth families have been surprisingly constant over the past century.

HSG: **Isn't maintaining all of these other services an expensive proposition for Bessemer?**

JAH: It's no secret that our business is built on a high-cost model. Since we don't charge separately for each service, you might assume that the narrower a client relationship is, the more profitable it will be but we think that's a shortsighted view. Bessemer enjoys very high client retention rates, and we believe that's due to a combination of competitive investment results, strong wealth advisory services and our multi-generational perspective. Although it may be costly, we are more than willing to maintain a model that builds such deep client relationships.

HSG: **Servicing the ultra-affluent takes a high-touch approach. What is your staff-to-client ratio?**

JAH: It's about one to three. Roughly speaking, we have 600 employees and 1,800 client relationships. This staff-to-client ratio appears to be one of the best in the industry and allows us to deliver the level of service our clients value.

HSG: **Is that sustainable?**

JAH: I don't see it changing dramatically, as it is fundamental to the way Bessemer conducts business. We have to manage our growth carefully to preserve our relationships with existing clients. This is another example where our private ownership can make a big difference. It gives us the luxury of moving at a pace that's right for Bessemer and its clients.

HSG: **Over the past 20 years, more people have reached millionaire status than ever before. Equity in public or private businesses has helped create more middle-age multimillionaires, and inherited wealth is becoming less dominant. How have those dynamics changed the complexion of your customer base?**

JAH: Over time, the average age of our clients has dropped. Nevertheless, if there is considerable wealth at stake, the goals are often preservation first and growth second, regardless of birth date. That makes our history and our capabilities attractive to a certain type of client, rather than a particular age group.

HSG: **What is your footprint and how will that expand?**

JAH: We have 14 locations, all opened with an eye toward being close to our clients and delivering more customized service at the local level. Twelve are in the U.S. in the major wealth centers, and the other two are in London and the Cayman Islands. We have our eye on a number of cities where we may open offices and recruit established professionals. We'll continue to evaluate strategic alliances as a way to create a presence in, or gain access to, a specific market or geography.

HSG: **I've been told that Bessemer operates around five corporate imperatives. Can you elaborate on these?**

JAH: The most important is for each employee to act in the best interests of the client and the firm and preserve the unblemished reputation we've built over the past 100 years.

The second imperative is to deliver competitive investment results—at Bessemer this means using a wide range of traditional and alternative asset classes to help clients participate meaningfully in strong markets and protect assets when markets are less favorable.

The next imperative is to deliver proactive, uncompromising, confidential service to our clients. It's the one area where we have 100% control and employee accountability, so there are no acceptable excuses for poor service. We received the Luxury Institute's number-one ranking of private wealth services providers for the past three years. No other wealth manager has even held on to a top-five position during that time.

The fourth imperative is to identify, cultivate and retain the best people, so that we can be an effective partner for our clients. I don't say this lightly. We need employees who feel that what they are doing is important, who can handle the authority and the responsibility to make decisions, and who like coming to work in the morning.

The fifth and last imperative is profitability. I probably spend the least amount of time on this because I believe that getting the first four imperatives right will lead us to the fifth.

HSG: **How are these different from any other firm's mission statement?**

JAH: First off, our five corporate imperatives have the endorsement of our family owners, and that speaks volumes. Perhaps more importantly, they are deeply embedded in our culture, and dictate the way we think and act collectively and individually.

Robert C. Elliott

Senior Managing Director, Client Services

Rob Elliott joined Bessemer in 1975 when the company began to accept non-family clients. Since that time, Rob has guided the development of Bessemer's service model, new business initiatives, expansion strategies and service enhancements.

HSG: **Rob, what's your responsibility and how does it fit in the world of Bessemer?**

RCE: Together with my colleague, Thad Shelly, I oversee client account management, which includes the coordination of all Bessemer's services for our clients. Essentially, the front-end of the engine that is Bessemer.

HSG: **What's the secret behind Bessemer's astronomical service ratings?**

RCE: Our client account managers have the greatest responsibility for the quality of a client's day-to-day relationship with us. Admittedly, "trusted advisor" may be an over-used term, but to us it means a professional who takes the time and effort to understand a family; has the background and intelligence to provide thoughtful, well-informed counsel; and whose interests are totally aligned with the client's. Our clients want a relationship with these dynamics, rather than an account manager who simply acts as a very efficient administrator. Assigning the right account management team to a client is as much art as science, and we put a considerable amount of thought into each decision.

HSG: **How are the teams structured?**

RCE: Our teams are made up of three or four professionals with varied backgrounds, dedicated to roughly 50 client relationships.

HSG: **That's a fairly small number of clients per team, compared to the industry norm.**

RCE: An intentionally small number. It allows the account managers to proactively stay in front of the clients, in order to prepare for milestone events, regulatory changes or other issues that will need to be addressed or resolved. They have the time to engage with clients across virtually every aspect of wealth management, from core services such as investments and estate planning to concerns at the other end of the relationship spectrum like selecting a day school or assigning valuations to real estate.

HSG: **What are the challenges of achieving this with consistency?**

RCE: The securities markets are too unpredictable for any firm to guarantee consistent investment performance, but we can rigorously control many aspects of the service process and the client experience. Much of this has to do with finding and retaining the right account managers and ensuring that they are suitable for a particular client. This

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is a daily challenge and one of the reasons that industry competition for high-caliber professionals with high-net-worth experience is so fierce.

HSG: **So, how does Bessemer measure the satisfaction of its clients?**

RCE: The most meaningful indicator of satisfaction is client retention. According to the VIP Forum, the highest tier among our competition enjoyed 95% retention over the past five years. During this same period, Bessemer achieved an average client retention rate of 98%. We also measure success by the number of clients who add significant assets to their Bessemer relationship.

HSG: **What does the typical Bessemer Trust client look like?**

RCE: We work with a range of clients. Our minimum account size is $10 million, our average relationship is about $27 million, and our average new account last year was approximately $37 million. Of course, we also have clients who have entrusted us with hundreds of millions. Many of our clients are business owners or the current or former CEOs of Fortune 1000 companies.

HSG: **What kind of client gets the most from a relationship with Bessemer?**

RCE: We can be exceptionally helpful to a family that wants to understand and address the broader issues associated with substantial wealth, and seeks to create a legacy. Bessemer also is right for families that regard their assets as irreplaceable capital, and value a thoughtful, time-tested approach to investment management.

It's essential for us to have an effective working relationship with a client's other advisors, especially from the legal and accounting professions. An open mindset is needed to ensure that our combined efforts are functioning as intended.

Bessemer is not an especially good fit for most self-directed investors or the person who desires the investment du jour.

HSG: **There are no profit centers at Bessemer Trust. How does that benefit your clients?**

RCE: This environment, in which all interests are aligned, eliminates the internal tension between departments and allows everyone to work collaboratively. It also allows us to offer bundled pricing and seamlessly expand the services we deliver to a client, based on their needs rather than on a department's bottom line.

HSG: How different is your model from a family office?

RCE: The scope of our capabilities is broader than that of most family offices. However, the real difference is in the breadth of our infrastructure and how we execute. Very few family offices can match our resources or the depth of our staff.

HSG: **Can you provide examples of some of the more unique services you provide your clients?**

RCE: In the early part of the last century, our employees opened and closed the winter and summer homes of the Phipps family, and helped manage their household staff. These days, services that you might classify as unique are quite different, and often are more event-driven. For example, we will arrange for hurricane shutters to be placed on a client's home by the shore while that client is out of town. Or Bessemer will help find a doctor for a client's child who suddenly requires medical care in a distant city. When you know your clients—and you care about them on a personal level—these services become second nature.

HSG: **So clients really perceive you as a "go to" resource, not just the place where their money is managed.**

RCE: We want those calls; we want to be the first call a client makes. Obviously the deeper the relationship is, the longer we'll be able to maintain it. When we do more than manage the money of a family, our value becomes more tangible to the client.

HSG: **What do you do to help educate the younger generations of your family clients?**

RCE: We have a variety of workshops for different age ranges and levels of knowledge. Introductory sessions can be a half-day long and more advanced programs might run

Robert C. Elliott

two and a half days. Core topics include understanding taxes, estate planning, preparing for the first major financial decision, investment basics, philanthropy, and learning to handle the personal hurdles that can accompany substantial wealth. We also are willing to tailor the curriculum and deliver it on a one-on-one basis.

HSG: **What's the goal for education, from the parent's perspective?**

RCE: Broadly speaking, it's to help children be financially responsible. But that can take many forms. It might mean equipping them, psychologically and practically, to deal with their inheritance. Another scenario might involve helping adolescent children prepare for a liquidity event, especially the changes that can come with sudden wealth. Why have they suddenly become so popular? Why are classmates asking to borrow money? We provide coping mechanisms and strategies to help children face these challenges.

HSG: **Based on the discussions you have with clients, can you characterize the top-of-mind issues for today's affluent families?**

RCE: Our clients are squarely focused on ensuring that their children possess the values and perspective to handle wealth responsibly. At what age is it appropriate to talk about wealth? How much is too much? And when should children have access to substantial assets? At the end of the day, our clients have a great interest in their children's emotional well-being and character development.

HSG: **Is there any industry consensus on those issues?**

RCE: There are some trends worth noting. When I first entered the industry, most trusts were set up to give heirs access to their money when they turned 25 or 30. Now it's closer to 35 or 40, and access to investment capital might be even later. This trend is directly related to the total dollars at play. Giving a 25-year-old control of $2 million is more plausible than giving her control of $20 million. The sheer magnitude of wealth is prompting a more conservative approach.

HSG: **How much do you care about what your competitors are doing?**

RCE: We want to be aware of what they are doing. We know that a lot of good ideas originate outside of Bessemer, and we want the chance to evaluate new tools and strategies for our clients. We also want to know when and where a competitor is opening new offices because it can affect our presence in a specific community and may result in recruiting efforts aimed at our employee base.

HSG: **What about fees? Can aggressive pricing impact your business?**

RCE: There's an ongoing debate in our industry about the merits of bundled and unbundled pricing models. Frankly, there are pros and cons to both approaches. It's interesting to know what the competition is doing and whether they're having any success with unbundled fee schedules. Bessemer's clients appear to be satisfied with a bundled model, which gives them easy access to the things they need.

HSG: **Firms calling themselves wealth managers and private wealth advisors are cropping up every day. How do you continue to differentiate yourself?**

RCE: That's an important question for our industry, because there is a large number of boutique multi-family offices, brokers, financial advisors, CPAs and others who represent themselves as full-service wealth managers.

However, it takes more than a glossy brochure or a well-conceived Web site to be a comprehensive wealth manager. The key is to be an effective advisor across all of the major wealth management components, which can be a challenge for firms of any size. Here's an interesting case: The West Coast clientele of one of our large competitors has to book estate planning appointments three months in advance. The firm offers estate planning because clients expect it, but whether management is willing to commit greater resources to this area or actually believes in its worth is open to debate.

If a Bessemer client wants to review an estate plan or a new tax strategy, we'll put six people around a table in a matter of days. That's how we've operated for 100 years.

Marc D. Stern

photography by Jordan Hollender

Marc D. Stern

Chief Investment Officer

Marc joined Bessemer Trust in 2004 as chief investment officer, after a decade with Bernstein Global Wealth Management. He began his career in corporate strategy and development with McKinsey & Co. and PepsiCo.

HSG: **Marc, what do you consider your mandate?**

MDS: It's straightforward. We seek to provide superior long-term investment results for high-net-worth families and individuals, net of inflation, taxes and fees.

HSG: **Do you find such a concentrated focus on private wealth to be limiting?**

MDS: No. Our focus on private wealth gives us a clarity of mission. We understand who our clients are and what they expect from us. This allows us to direct all of our resources and best thinking toward the shared goals of our clients.

HSG: **What makes the investment effort at Bessemer unique?**

We do today what we were established to do in 1907: manage the assets of high-net-worth families and the entities in which they play an active role, such as foundations, endowments and private partnerships. Every portfolio, service and solution at Bessemer is created specifically and solely for this group of investors.

This contrasts with many asset management firms that were formed to manage pension funds and institutional assets, and eventually packaged their capabilities into separate accounts and mutual funds for the HNW and retail markets. It's a great way to expand to a bigger audience, but it can dilute your focus. At Bessemer, we don't introduce distractions into our investment model by attempting to serve multiple client segments.

HSG: **Aren't ultra-affluent clients basically institutional investors?**

MDS: There are certain similarities but there are some important differences too. Our clients' objectives may address future assets and liabilities, just like a pension plan or insurance company, but each family's distinct composition and goals create a layer of complexity that institutions typically don't have. High-net-worth families want institutional quality management and we seek to provide that, but in a highly customized way that considers their particular needs. In addition, each investment strategy has to make sense on an after-tax basis. Those dynamics are quite different from what you might find at firms that primarily serve pension plans and other institutional investors.

HSG: **How big is the investment team?**

MDS: We have a team of about 80 investment professionals between New York and London. That includes everybody from myself to portfolio managers, analysts, quantitative specialists, traders and risk-control personnel. It also includes our portfolio support professionals, who make sure our implementation reflects each client's investment goals and preferences.

HSG: **What is the relationship between research and portfolio management?**

MDS: We believe we can deliver the best results by having a dedicated research team for each asset class. For example, an analyst who is part of our mid-cap team works alongside a portfolio manager, research director and other analysts who are all focused on mid-cap equities. This structure gives each analyst a stronger link to a specific portfolio, clarifies priorities and reinforces the importance of teamwork. It also allows us to develop clearly aligned compensation structures that benefit the entire team and provide additional incentives for outperformance.

HSG: **What do you look for in an investment professional?**

MDS: In addition to strong technical skills and a record of career success, we look for people who can be advocates for their research conclusions. They have to be willing to take a stand and be persuasive. Similarly, we want professionals with the willingness and ability to function as part of a team—people who will share information and communicate openly, respectfully challenge one another's ideas and work collaboratively on a solution. We see these as core elements of teamwork.

HSG: **What investment disciplines do you make available to your clients?**

MDS: We offer our clients a wide-ranging global asset allocation that includes large-, mid- and small-cap equities in the U.S. and around the globe, commodities, taxable fixed income, tax-free municipals, hedge funds, private equity and real-estate. Each is designed to fit well within the overall asset mix.

HSG: **Is everything managed internally?**

MDS: We believe strongly in combining in-house and third-party capabilities. This structure enables us to provide a high level of expertise across all asset classes.

Our active involvement in the investment markets on a daily basis also serves another function. It helps us acquire a clear understanding of actual market conditions, which provides critical input into our asset allocation decisions. Without this ongoing involvement in the markets, a manager would need to rely on quantitative models to establish and fine-tune asset allocations. While quantitative models are helpful in establishing an asset mix, at Bessemer we do not allow them to be the final arbiter of reality. Experience has repeatedly confirmed that market judgment must play a role.

HSG: **Is there an investment strategy you use as the core of your clients' portfolios?**

MDS: We call our flagship asset allocation Balanced Growth. Its objective is to achieve long-term growth for our clients via a diversified portfolio that minimizes risk. While our focus is on long-term results, we care about the way it is achieved. Our goal is always to participate in stronger markets and protect our clients' assets in weaker ones. The process is overseen by a group of our most senior investment professionals. It's how we deliver our best thinking to our clients.

HSG: **How is this implemented at the client level?**

MDS: We meet separately with account managers to discuss individual clients. Our team is always prepared to modify clients' investment portfolios to reflect the risk profile and specific needs of a family. For instance, we may be asked to allow for income needs or the specifics of a particular charitable structure.

HSG: **Allowing for client differences, how similar are the large-cap portfolios owned by Client A and Client B?**

MDS: They will be nearly identical. Our portfolio management is centralized for a reason. We've developed superior processes, and if they are not delivered consistently to all of our clients, we're undermining our own efforts. Consistency is the only way we can control the process, take accountability for the results and meet our client's expectations.

However, customization is still a primary concern. If a family has a significant position in a particular stock or strong personal preferences, we will modify their sector exposure.

HSG: **Alternative investments, especially hedge funds, have become a household word the past five to seven years. Has that mainstreaming impacted your allocation to alternatives?**

MDS: Not dramatically. Alternative investments like hedge funds, venture capital, buyouts, and real estate have been part of Bessemer's asset allocation for a long time. A lot of our clients grew their wealth by creating and monetizing a private enterprise, so they're comfortable with the risks and the merits of less liquid assets. Because alternative investments have been important to us for decades, our manager research teams have strong relationships that enable us to get preferred access to top-performing, capacity-constrained managers.

HSG: **How would you describe the risk-management process?**

MDS: As you might expect, risk management is of great interest to clients, particularly in light of the 2000-2003 bear market and the recent market turmoil.

We employ an ongoing, multistage risk management process that includes all the technical and quantitative elements you'd expect, including historical quantitative models, risk analytics and scenario modeling. But we also rely on common sense and the judgment of professionals that is based on decades of market experience. The goal is to understand the amount of risk we are taking on behalf of clients, both on an absolute basis and relative to benchmarks. We use those insights to help us determine how to best position portfolios in light of current market conditions and other variables. By determining where risks and opportunities are unusually provocative, we can proactively adjust our asset allocation recommendations.

HSG: **How often do you communicate with clients about the investment process?**

MDS: Clients hear from our investment group every quarter on our market views, investment strategies and performance. During unusual times, such as this past summer, we communicated with our clients on a more frequent basis. In addition, our group meets regularly with the account management team and virtually all of our firm's personnel to discuss our latest thinking.

HSG: **Our research has shown that the higher an individual's net worth, the more likely they are to prioritize tax mitigation over investment performance. Do you see that among your client base?**

MDS: Tax management is certainly an important issue for nearly all clients. They want to know we are taking thoughtful, practical steps to minimize their taxes. In our experience, though, the number-one investment priority for most clients, regardless of the extent of their wealth, is making money over the long haul.

HSG: **Does Bessemer's private ownership give you any particular advantages as an investor?**

MDS: Yes. It adds flexibility in how we reinvest in our business, which allows us to be responsive to our clients' needs without compromising our long-term plans.

Because we're not part of a giant retail bank, mutual fund complex or other corporate entity, there's none of the usual competition and conflicts among business units. Everyone here is focused on the same goal. That creates the right mindset for teamwork and entrepreneurship, two qualities that we believe are essential to deliver the innovative investment services our clients expect.

Our mission is clear and that makes it easy to connect the dots between our clients' expectations, the way we measure success and how we reward our employees. PW