January 2010

Quarterly Investment Perspective

Markets In Transition

A Letter From Marc D. Stern, Chief Investment Officer

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Dear Client,

The sharpest market moves occur when a belief widely held by investors proves incorrect.

The last 18 months have been full of these unsettling developments — to the downside (home prices *can* plunge nationally, big investment banks *can* collapse, and global markets *do* move together in times of panic) as well as to the upside (financial crises *don't* clobber all industries' earnings, the banking system *won't* be nationalized, and global policy-makers *do* have potent tools to restore financial order). No wonder we've seen stock-market volatility twice as high as normal during this period.[1]

But now a new phase appears to be under way. No longer are stocks likely to move straight down or straight up for months on end. Indeed, much of financial history can be described as "1 1/2 steps forward and 1 step back," and we think this will turn out to be an appropriate headline for the next few years. The themes that are central to our thinking for 2010 appear later in this letter. First, though, we'll look at the year just past.

2009 Results

A new year is a natural time to revisit what has helped and hurt our investment returns. As usual, we had ample quantities of both.

Our expectations for 2009 were generally on target, including our belief that retrenching consumers would cause global economic weakness and equity-market setbacks, particularly early in the year. We also correctly expected policymakers to relentlessly battle this downward spiral, enabling improvement in corporate credit, residential housing, and stock markets. Fears of "Great Depression II" evaporated, as we had anticipated. But we were wrong to expect stocks to experience a gradual, grudging recovery. The ensuing market liftoff far surpassed our forecasts.

[1] Two measures appear relevant. First, the Chicago Board Options Exchange (CBOE) implied monthly volatility averaged 10.1% from July 2008 to December 2009, versus a long-term average of 5.5%. Second, the average intra-month spread between high and low for the S&P 500 Index averaged 12.6% from July 2008 to December 2009, versus a long-term average of 6.2%.

Exhibit 1: Bessemer Performance Summary

	Returns			Volatility
	Jan–Feb 2009	Mar–Dec 2009	Fiscal Year 2009	Fiscal Year 2009
Bessemer Growth Portfolio	**(9.5)%**	**39.2%**	**26.0%**	**14.2%**
S&P 500 Index	(18.2)	54.6	26.5	22.3
Bessemer Balanced Growth Portfolio	**(6.5)%**	**28.9%**	**20.5%**	**10.3%**
U.S. Stock/Bond Mix (70/30)	(13.6)	38.8	19.9	16.4
Global Stock/Bond Mix	(11.0)	37.2	22.0	14.5
Lipper Balanced Average	(10.3)	39.0	24.6	14.2
Bessemer Balanced Portfolio	**(5.1)%**	**22.8%**	**16.5%**	**8.2%**
U.S. Stock/Bond Mix (55/45)	(11.2)	31.4	16.6	13.5

As of December 31, 2009. Volatility is defined as the annualized standard deviation of monthly returns. Lipper Balanced Average volatility is the annualized standard deviation of the Lipper Balanced Index. For a complete description of our portfolios and benchmarks, please see footnote on page 6.
Source: Barclays Capital, Dow Jones, Lipper, Morgan Stanley Capital International, Standard & Poor's

Our investment strategies shaped our portfolio returns in three key ways:

- Our defensive positioning limited losses during the market trauma of late 2008 and early 2009, but our gradual deployment of excess cash during 2009 restrained our upside in the markets' surge since mid-March (Exhibit 1). We were pleased to see our strategies limit our portfolios' volatility during this turbulent year.
- We adjusted our overall asset allocation in February 2009, reducing our weighting in government bonds in favor of riskier corporate credit. This shift proved profitable, as high-yield bond returns far surpassed those of high-quality bonds. Most credit investments, however, lagged the stellar gains of global equity markets.
- We experienced favorable security selection in U.S. Large Cap (led by economically sensitive sectors including energy, materials, and technology) and Real Return (especially metals and infrastructure). On the other hand, we were hurt by weak security selection in Non-U.S. Large Cap (financials and healthcare, especially in Continental Europe).

Additional detail regarding our portfolio performance and positioning begins on page 7.

Key Themes for 2010

Looking ahead, we foresee a landscape bearing little resemblance to 2009. Our thinking for the year ahead is centered on six key themes (Exhibit 2).

No "double-dip" recession

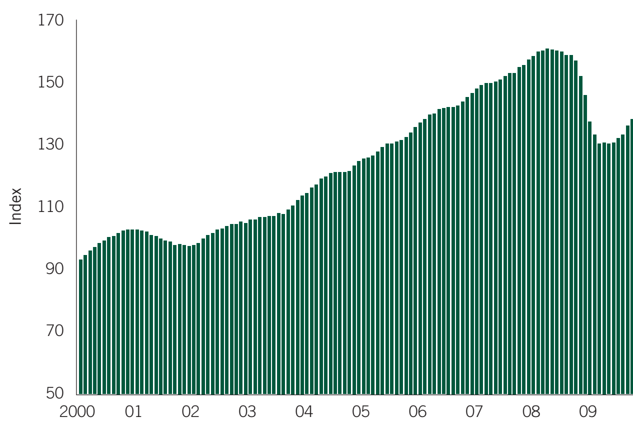
After four straight quarters of contraction, economic growth in the large developed economies turned positive in mid-2009. Australia, France, Germany, Japan, Sweden, Switzerland, and the U.S. were among the economies showing gains in the third quarter.

Many commentators see this as a temporary respite, with a second wave of recession likely to follow. Phrases like "sugar high," "sucker's rally," and "dead-cat bounce" have become prevalent. But we see things differently. Indeed, we believe U.S. economic growth will exceed 4% in the fourth quarter (to be reported in late January), double the previous quarter's growth rate. We expect economists to respond by raising their 2010 forecasts.

Exhibit 2: Our Expectations for 2010

The most critical factor in our above-consensus growth outlook is world trade. Following a precipitous drop in early 2009, trade activity has picked up (Exhibit 3). In fact, this figure has increased in each of the five months ended October, as corporations reopen their wallets after having taken cover in the teeth of the storm.

Exhibit 3: World Trade Rebounding

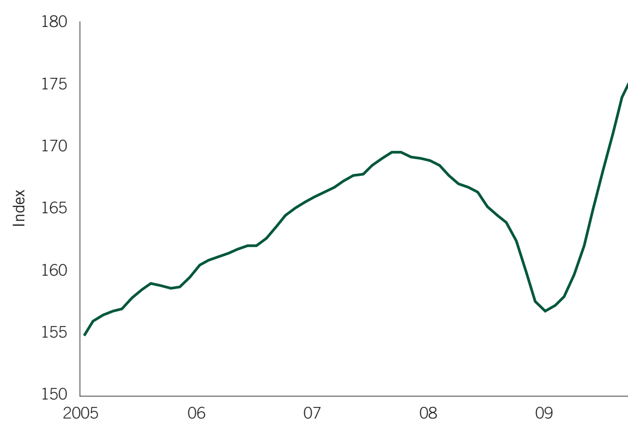


As of October 31, 2009.
Source: Netherlands Bureau for Economic Policy Analysis

One of the most important economic developments in 2009 was what *didn't* happen: Protectionism did not take center stage. Even as global policymakers boosted some tariffs in response to political pressures at home, they avoided the inevitably counterproductive impulse to punish other countries and attempt to go it alone.

Rebounding trade is one of many positive economic indicators that materialized in late 2009. A comprehensive view of business conditions comes from the Economic Cycle Research Institute (ECRI), a credible and independent research firm. While no forecast is infallible, ECRI's Global Long Leading Index has generally demonstrated good success over time. As shown in Exhibit 4, the latest data is signaling favorable global economic growth this year, reinforcing our belief that "double-dip" recession forecasts will miss the mark.

Exhibit 4: ECRI Global Long Leading Index



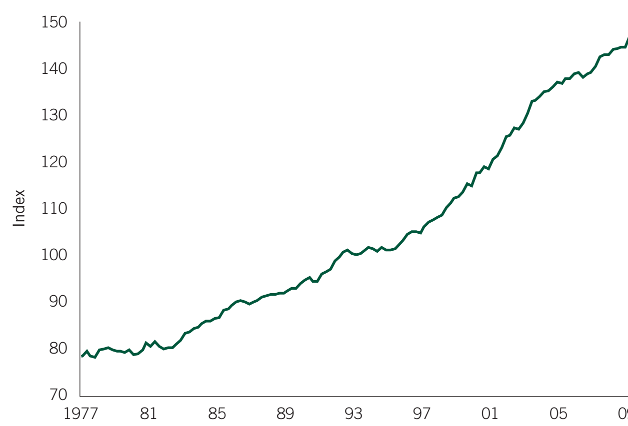
As of October 31, 2009.
Source: Economic Cycle Research Institute

Sustained corporate strength

If global economies continue to recover, many leading companies will be well positioned to demonstrate surprising strength as the year unfolds.

Powered by technological innovation and economic globalization, corporate productivity has been in a strong upturn for years. More recently, corporations took dramatic steps to control costs as the financial crisis undercut consumer demand. The effectiveness of this discipline is evident in Exhibit 5, which shows that corporate productivity has reached unprecedented levels.

Exhibit 5: Corporate Productivity



As of December 31, 2009.
Source: Bureau of Labor Statistics

As economic growth moved back into positive levels in the third quarter, companies were able to convert their increased efficiency into profit margins that far exceeded expectations. In response, Wall Street analysts scrambled to raise their 2010 earnings estimates. We think there's more to come. Indeed, we expect improving new-order activity to enable many companies to outpace earnings estimates over the next several quarters.

A monthly survey of purchasing managers — who have an unmatched window into their employers' expansion plans — confirms our view that companies are now reinstating orders they had deferred during the financial meltdown. Globally, purchasing managers have reported increasing new orders for ten consecutive months ended December, a notable upswing. Rebounding new-order activity can be self-reinforcing, as companies seeing a stronger backlog place additional orders with other companies to fulfill their own order books.

Just as the downward spiral of late 2008/early 2009 radiated throughout the economy, a virtuous cycle appears to be underway in late 2009/early 2010.

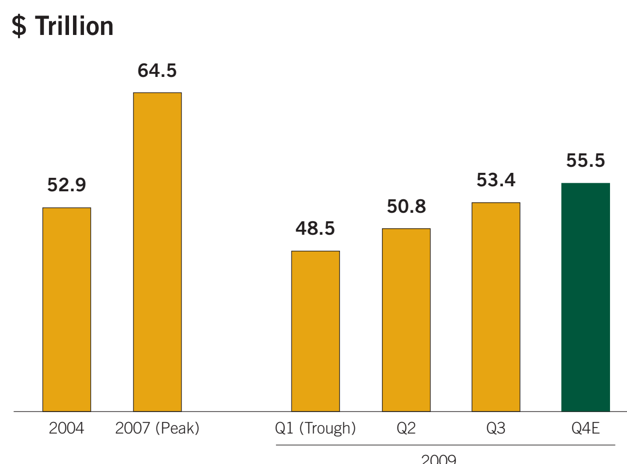
Consumer meltdown averted

About a year ago, the picture for U.S. consumers looked awfully bleak. Stock and home prices were plunging, debt levels were too high, and jobs were disappearing at an alarming rate. The tough times aren't over, as many consumers continue to face adversities. But the prospects for a widespread consumer meltdown have substantially receded.

Stock prices have rallied and home prices have stabilized, leading to an estimated $7 trillion increase in U.S. household net worth since bottoming in the first quarter of 2009 (Exhibit 6). While net worth will likely remain below 2007 peak levels for at least several years, the recent turnaround has substantially boosted consumer balance sheets.

Exhibit 6: Household Net Worth

$ Trillion



As of December 31, 2009. Household net worth Q4 2009 reflects Bessemer estimate.
Source: Federal Reserve

In addition, many consumers have made substantial progress in reducing their debt load. Since peaking at 19% of income two years ago, household debt obligations have fallen to about 17½% — slightly above the long-term average of 17%. We expect the savings rate to stabilize near current levels, enabling further gradual debt reductions for several more years.

No statistic is more critical for consumer spending than job creation. When U.S. corporations are cutting payrolls by 700,000 jobs per month — as they were in early 2009 — consumers are in great peril. But companies can't slash costs forever. At some point, they jeopardize their ability to fulfill their orders.

It appears to us that corporations will need to add headcount in the first half of 2010. Indeed, a number of statistics released in late 2009 convinced us the job market is strengthening:

- New jobless claims were 30% below peak levels.
- The average work week was lengthening slightly.
- Companies added temporary workers for five consecutive months ended December.
- Purchasing manager surveys revealed greater intent to hire workers.
- Global employment trends were improving, with signs of strength in Australia, China, India, Indonesia, South Korea, and elsewhere.

Governments reduce stimulus

If 2009 was a year of global policymakers doling out extraordinary stimulus, 2010 will likely be a year when they take much of it back. As the private sector gets back on its feet, fiscal and monetary stimulus will inevitably be reduced from their unprecedented heights.

Interest rates will likely remain low in many countries (including the U.S.), but we expect the free flow of liquidity often described as "quantitative easing" to be reduced gradually in early 2010 and more significantly by year-end.

Indeed, policymakers are already preparing the markets for this important transition:

- "In light of ongoing improvements in the functioning of financial markets, the Federal Reserve anticipates that most of its special liquidity facilities will expire in 2010." — Federal Reserve Open Market Committee, December 16, 2009.
- "The priority of getting the country's finances under control is going to be very clear in the rigorous budget the President proposes." — National Economic Adviser Larry Summers, December 13, 2009.
- "As regards our non-standard measures, there should be no concern about the European Central Bank's determination and ability to exit." — ECB President Jean-Claude Trichet, November 24, 2009.
- "Extraordinary Chinese bank loan expansion has raised concerns about excessively loose credit conditions." — Bank of International Settlements, December 7, 2009.
- Central bankers raised short-term interest rates in Australia, Israel, and Norway in the fourth quarter. Others will likely follow — some this year, others in 2011.

Policymakers face especially difficult choices in 2010. They know it is essential to pull back their stimulus to avoid excessive currency weakness and inflationary pressure, but they need to do so in a manner, timing, and pace that won't disrupt the substantial economic progress of the last six months. They are bound to make some mistakes, but we believe central bankers have credible plans to remove their stimulus and will make gradual adjustments to minimize the likelihood of calamitous errors.

Moderate economic growth

Our expectation for recovering world trade, rising corporate profits, and improving employment suggests the private sector can withstand reductions in government stimulus without relapsing into recession.

Nonetheless, we think it's unmistakable that a backdrop of rising interest rates, lower liquidity, and higher taxes will crimp economic growth rates. This appears especially true in a time of rising commercial real estate defaults and additional failures of smaller banks.

Overall, we expect global growth of approximately 3½% in 2010 — more than four points higher than last year, but below 2007 levels (Exhibit 7). Emerging markets like China, India, and Brazil will likely continue leading the way, while we expect the U.S. to grow somewhat faster than developed markets in Europe and Asia.

Exhibit 7: GDP Growth

	2007	2008	2009E	2010E
China	13.0%	9.0%	8.5%	9.0%
India	9.4	7.3	6.0	6.0
Brazil	5.7	5.1	(0.5)	4.0
U.S.	2.1	0.4	(2.5)	3.0
U.K.	2.6	0.7	(4.5)	1.5
Euro-zone	2.7	0.7	(4.0)	1.5
Japan	2.3	(0.7)	(5.0)	1.5
Global	**5.2%**	**3.0%**	**(1.0)%**	**3.5%**

As of December 31, 2009.
Source: Capital Economics, International Monetary Fund

Shifting investment landscape

In 2009, four key themes dominated investors' thinking:

- Financial system nears collapse;
- Investors flee risk, creating huge discounts for growth-oriented assets;
- Policymakers provide enormous liquidity injections; and
- Growth-oriented assets surge.

In this environment, riskiest assets did the best. The clearest way to see this trend is to examine the bond market, where AAA-rated blue-chip bonds returned essentially zero in 2009, while CCC-rated junk bonds returned more than 90% (Exhibit 8). The same phenomenon occurred in the stock market: High-quality market leaders lagged, as investors pursued companies with no earnings and no dividends, with a particular preference for the riskiest emerging markets. Most commodities also performed well.

Exhibit 8: Bond Returns

Credit Rating	2009 Returns
AAA	(0.1)%
AA	7.6
A	14.9
BBB	27.2
BB	46.1
B	44.7
CCC	90.7
D	136.3

As of December 31, 2009.
Source: Barclays Capital

This year calls for a very different set of investment strategies. The backdrop described in this letter will likely favor patient strategies and disciplined rebalancing. As merger and acquisition activity picks up, we expect investors to increasingly favor assets providing reliable cash flow, especially high-quality global companies with leading market shares. Better-quality corporate credit will likely outperform the lowest-rated bonds. Some commodities with unattractive supply/demand fundamentals will likely struggle. And some overheated emerging markets appear vulnerable to downward revaluation.

We believe we are well positioned for this market transition. Many changes have been implemented within our portfolios in recent months to be ready for the environment we foresee, as described in the pages that follow.

Heading into the new year, we will continue to rely on our disciplined investment process to deliver strong long-term performance. Collaboration among our investment teams and external managers will remain critical, helping us to develop well-informed ideas. I look forward to sharing our research conclusions and investment strategies in the quarters ahead.

Sincerely,

Marc D. Stern
Chief Investment Officer

The Balanced Growth, Growth, and Balanced Portfolio represent model portfolios comprised of U.S. Large Cap, Non-U.S. Large Cap, Global Opportunities, Global Small & Mid Cap, Real Return, Fixed Income, Strategic Cash, and three Bessemer hedge funds of funds. Investments cannot be made directly in these model portfolios. Relative weightings in these model portfolios vary over time. Returns for Old Westbury Global Opportunities Fund, Old Westbury Global Small & Mid Cap Fund, Old Westbury Real Return Fund, and Bessemer hedge funds of funds are after all fees and expenses. All other returns reflect performance of Bessemer Common Trust Funds and are before fees and expenses. The results also include the reinvestment of all dividends and capital gains. Past performance is no guarantee of future results.
Global Small & Mid Cap Fund returns began April 5, 2005. Real Return Fund returns began April 28, 2005. Global Opportunities Fund returns began November 28, 2007. Bessemer hedge funds of funds returns for these model portfolios began July 1, 2005, are preliminary and are subject to revision. Alternative investments, including Bessemer hedge funds of funds, are not suitable for all clients and are available only to qualified investors.
Prior to July 28, 2008, the Non-U.S. Large Cap Fund was named the International Fund and operated under a different investment strategy. Prior to October 2, 2008, the Global Small & Mid Cap Fund was named the Global Small Cap Fund and operated under a different investment strategy and the U.S. Large Cap Fund was named the Large Cap Equity Fund. The prior performance shown represents performance of these funds' prior strategies.
The Global Stock/Bond Mix reflects a mix of the S&P 500 Index (25%), S&P Mid Cap 400 Index (10%), MSCI EAFE Index (14%), MSCI World Small Index (5%), MSCI Emerging Markets Index (3%), HedgeFund.net (10%), Dow Jones-UBS Commodity Index (2.5%), Barclays Government/Credit Bond Index (25%), Barclays U.S. TIPS Index (2.5%), and Treasury Bills (3%).
The U.S. Stock/Bond Mix (70/30) is a composite of 70% S&P 500 Index and 30% Barclays Government/Credit Bond Index.
The U.S. Stock/Bond Mix (55/45) is a composite of 55% S&P 500 Index and 45% Barclays Government/Credit Bond Index.

Balanced Growth

Chief Investment Officer: Marc D. Stern

2009 Performance Analysis

	Annualized: Periods Ending December 31, 2009			
	1 Year	3 Years	5 Years	10 Years
Bessemer Balanced Growth	**20.5%**	**0.6%**	**4.5%**	**2.8%**
U.S. Stock/Bond Mix (70/30)	19.9	(1.9)	2.0	1.5
Global Stock/Bond Mix	22.0	(0.6)	3.7	NA
Lipper Balanced Average	24.6	(0.6)	3.1	NA

Please see page 6 for a complete description of the Bessemer Balanced Growth model portfolio and its benchmarks.

The Bessemer Balanced Growth model portfolio includes Bessemer common trust funds, Bessemer hedge funds of funds, and Old Westbury mutual funds. Bessemer Investment Management LLC, a wholly owned subsidiary of Bessemer Trust Company, N.A., is the registered investment adviser for the Old Westbury mutual funds.

Q: What is your overall investment philosophy?

We believe an actively managed, diversified portfolio is the best way to achieve solid long-term returns at a controlled level of risk. Relying on independent research and a combination of internal and external managers, we build a global mix of large-, mid-, and small-cap equities, fixed-income securities, credit investments, commodities, and hedge funds. We make proactive changes to our recommended allocations based on current market conditions, with three central objectives in mind:

1) Deliver strong absolute returns outpacing inflation, fees, and taxes;
2) Participate in stronger market periods while limiting losses in difficult ones; and
3) Achieve superior relative returns versus benchmarks.

Q: What helped and hurt performance in 2009?

In a year marked by two distinct periods — a down market in the first quarter giving way to a sustained recovery thereafter — several factors contributed to performance. Some of the strategies that initially helped us eventually limited our returns as the equity market rally picked up momentum.

Defensive positioning helped limit losses. As the year began, global markets were tumbling, the financial system was teetering, world trade was grinding to a halt, and consumer confidence was deteriorating. Our defensive strategies — particularly higher-than-normal cash positions — helped us lose less than the broad markets.

Shift from fixed income to credit investments boosted returns. In February, we reduced our allocation to high-quality fixed income, which had recently done well, in favor of credit investments, where we saw market dislocations creating unusually compelling return potential. Through the Global Opportunities Fund, we gained exposure to high-yield bonds, secured bank loans, and convertible bonds — all of which performed well during the year, both on an absolute basis and relative to high-quality fixed income.

Favorable security selection in U.S. Large Cap and Real Return. A research-driven investment process helped drive outperformance in these portfolios (see pages 10 and 19 for more information).

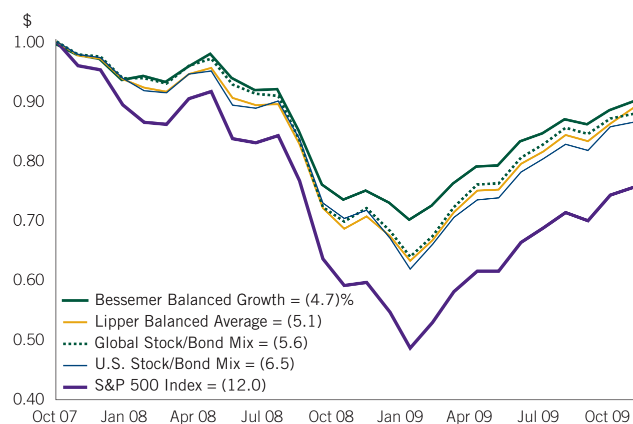
Gradual reduction of cash levels held back performance. The most significant detractor from performance was our measured pace in trimming defensive positions as the market rallied. In a highly uncertain environment, we believed it was in our clients' best interest to maintain a prudent balance between conservative and growth-oriented holdings.

Reduction of equities in Global Opportunities restrained returns. To increase exposure to corporate credits, global equities were trimmed within the Fund. While credit investments in Global Opportunities performed well during the year, equity markets did even better.

Weak security selection in Non-U.S. Large Cap. While this portfolio achieved strong absolute returns, its defensive positioning — particularly its limited exposure to the higher-risk financial stocks that surged, and its overweight of the healthcare and telecommunications sectors — detracted from performance (see page 12 for more information).

We believe our pattern of performance in 2009 is consistent with our goal of participating in stronger market periods while limiting losses in weaker ones. Having protected capital during the worst of the crisis, Balanced Growth remains ahead of its benchmarks for the full market cycle (Exhibit 9).

Exhibit 9: Balanced Growth Performance through the Cycle



Annualized performance from October 31, 2007 to December 31, 2009. Bessemer and Lipper returns are after fees. Please refer to page 6 for a complete description of our portfolio and benchmarks.
Source: Barclays Capital, Dow Jones, Lipper, Morgan Stanley Capital International, Standard & Poor's

Over longer periods, we've generally achieved superior returns with less volatility than the broader market. Exhibit 10 shows our flagship portfolio's three-year returns after fees relative to a Global Stock/Bond Mix on a rolling basis since January 2005. In 92% of three-year periods, we have outperformed the benchmark, with significantly less volatility along the way. This was especially true recently; for example, for the last three years, Balanced Growth's annualized volatility was 2.3 percentage points lower than that of the Global Stock/Bond Mix.

Q: Were there any notable changes in 2009?

As we deployed excess cash into new opportunities created by the market turmoil, we raised the weighting of growth-oriented assets to about 70% by year-end, up from 50% at the start of the year. In particular, we increased exposure to global equities and corporate credit.

Q: How are you positioned now?

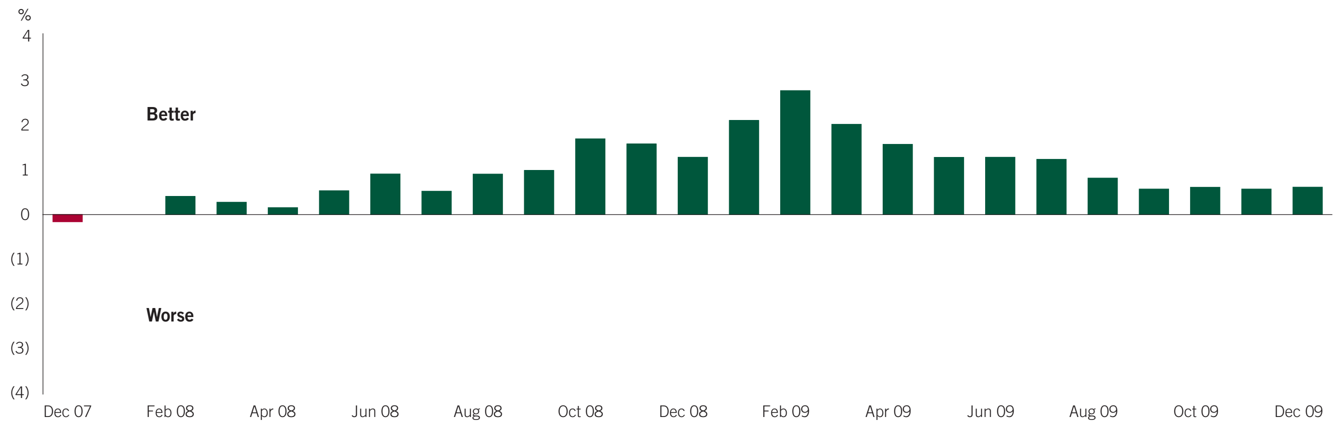
We continue to diversify the Balanced Growth portfolio by asset class, geography, and sector. Overall, our portfolios have exposure to 14 asset classes, 64 countries representing 94% of world GDP, and all 10 industry sectors. Within the growth-oriented portion of the Balanced Growth portfolio, approximately 37% of investments are headquartered outside the U.S.

Q: What developments are you monitoring closely for this year?

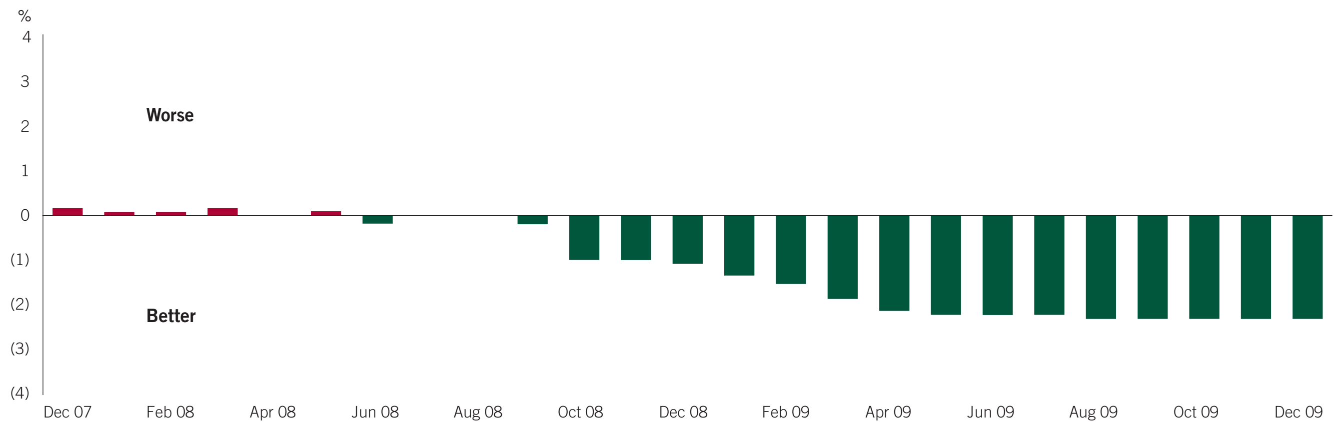
As we assess potential asset allocation shifts, we are intently focused on whether the global economy will continue to develop in line with our expectations, as described in the letter beginning on page 1. Of particular importance to us in 2010 is whether there will be growth in world trade, which will likely be affected by corporate earnings growth and changes in government policies. In addition, we are monitoring valuations for global equities, which depend on our ongoing assessment of long-term corporate earnings power and fluctuations in the yields offered by government bonds.

Exhibit 10: Balanced Growth vs. Global Stock/Bond Mix

Relative Annualized Three-Year Returns



Relative Annualized Three-Year Volatility



	Annualized: Since January 2005	
	Return	**Volatility**
Balanced Growth	**4.0%**	**9.7%**
Global Stock/Bond Mix	3.7	11.4

As of December 31, 2009. Volatility is measured by annualized standard deviation of monthly returns. This figure is most meaningful over multi-year periods. Past performance is no guarantee of future results. Bessemer returns are after fees. Please refer to page 6 for a complete description of our portfolio and benchmarks.

Source: Barclays Capital, Dow Jones, Federal Reserve, Hedgefund.net, Morgan Stanley Capital International, Standard & Poor's, UBS

U.S. Large Cap

Head of Global Equities: Lois R. Roman

2009 Performance Analysis

	Annualized: Periods Ending December 31, 2009				
	1 Year	3 Years	5 Years	10 Years	Since Manager Inception
U.S. Large Cap	**31.3%**	**(3.9)%**	**1.4%**	**(1.5)%**	**0.0%**
S&P 500 Index	26.5	(5.6)	0.4	(0.9)	(1.5)

The performance presented above is derived from Bessemer's U.S. Large Cap Common Trust Fund and is before fees and expenses. Manager inception date is July 2006.

Q: What is your overall investment philosophy?

Although we maintain two large-cap portfolios, we manage global equities with one worldview and a consistent, disciplined investment process. We believe building a concentrated portfolio of stocks in which we have strong convictions will help us outperform over time. To select stocks, we rely on fundamental and quantitative research, encompassing everything from meetings with company management to using analytical screening tools. Global research informs our decisions, with our analysts covering industries across major developed and emerging markets to help them form a broad picture. We look for companies that are currently operating below their normalized earnings — taking into account multi-year operating cycles — but are improving.

Q: What helped and hurt performance in 2009?

The investment environment shifted quickly early in the year, and our agility in moving from a defensive position into a more growth-oriented stance beginning in the second quarter helped U.S. Large Cap outperform the broad U.S. equity market. The prompt redeployment of the cash we had raised in late 2008 to companies tied to the economic recovery worked in our favor as the market moved sharply higher.

Superior selection of energy companies. We focused on companies poised to benefit from a rebound in commodity prices, such as oil service company Weatherford, natural gas producer Chesapeake Energy, and drilling firm Cameron International — all of which posted strong returns during the year.

Overweight of outperforming technology sector. Our diverse technology holdings included companies with limited debt, strong cash flows, and the opportunity to grow market share. Several noteworthy performers were Corning, a glass manufacturer for flat-panel TVs and computer monitors, storage-device maker EMC, and BlackBerry-maker Research in Motion. The latter is a good example of our disciplined investment process. In 2008, our analysis suggested the company was trading at an attractive valuation and was earning below its normalized growth rate. Following our initial purchase, the stock sold off more, giving us the opportunity to augment our position at more attractive prices. As the stock recovered in 2009, we exited the stock at our price target.

Favorable stock selection in materials sector. We benefited from having the courage of our convictions on International Paper. Our research suggested the widespread fears that the paper-and-packaging company was headed for bankruptcy in late 2008 were unfounded, and that management was guiding the company well through a difficult environment. As credit conditions improved in 2009, the stock surged.

Holdings in underperforming consumer staples and healthcare sectors. Among the factors that detracted from performance were our positions in Wal-Mart and Procter & Gamble, two of our best-performing stocks in 2008. As the economic outlook brightened in 2009, consumer staples, which are less sensitive to economic cycles, lagged the overall market. In

healthcare, our biotechnology stocks were a notable drag. Drug maker Celgene underperformed as the company awaited approval of several new indications for its main drug Revlimid, as did biotech firm Genzyme after manufacturing problems derailed the company's production. We stand by our thesis on Celgene, but we sold Genzyme mid-year and it has continued to fall.

Conservatively positioned in financial sector. For much of the year, we had little exposure to riskier financial stocks, which rallied most in 2009. Our research suggested that business fundamentals at the large banks remained poor despite improvements in their short-term outlook. Instead, we held regional banks, such as SunTrust, a strategy that worked against us. In the second half of the year, though, we gradually gained confidence in some of the more aggressive banks, such as JP Morgan Chase, which we believe will be one of the first U.S. banks to achieve a normal level of earnings.

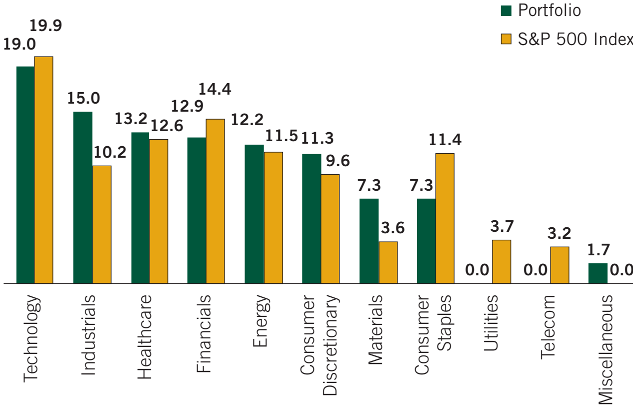
Q: Were there any notable changes in 2009?

We ended the year in a dramatically different position than we began. We pared down our holdings of companies that are generally insulated from economic cycles and raised our growth-oriented holdings.

Q: How are you positioned now?

Our preference for companies that are poised to benefit from the economic recovery has led us to several names in the technology, financial, and energy sectors (Exhibit 11). We are underweighting utilities, consumer staples, and telecommunications.

Exhibit 11: Sector Diversification



Data and holdings reflect the U.S. Large Cap Common Trust Fund as of December 31, 2009.
Source: FactSet, Standard & Poor's

Q: What developments are you monitoring closely for 2010?

Even as we monitor monetary policy to determine whether central bankers' policies can encourage growth without sparking inflation, our core focus will remain on corporate earnings. Many companies quickly slashed costs in 2009 as waning demand eroded revenues. Now that top-line growth is picking up, the question is whether firms will maintain their slimmed-down cost structures. We believe the best companies have cut wisely and are beginning to benefit from long-term investments in technologies that make them more efficient and provide potential for higher margins for years to come. In particular, we are monitoring this trend in the manufacturing, consumer discretionary, and technology sectors in the U.S.

Non-U.S. Large Cap

Head of Global Equities: Lois R. Roman

2009 Performance Analysis

	Annualized: Periods Ending December 31, 2009				
	1 Year	3 Years	5 Years	10 Years	Since Manager Inception
Non-U.S. Large Cap	**19.9%**	**(6.4)%**	**2.8%**	**0.9%**	**(6.7)%**
MSCI EAFE Index	31.8	(6.0)	3.5	1.2	(11.1)

The performance presented above is derived from Bessemer's Non-U.S. Large Cap Common Trust Fund and is before fees and expenses. Prior to July 28, 2008, the Fund operated under a different investment strategy. The performance information shown may not be representative of performance the Fund will achieve under its current investment strategy. Manager inception date is July 2008.

Q: What is your overall investment philosophy?

Just as we do for our U.S. Large Cap portfolio, we manage Non-U.S. Large Cap equities with one worldview and a consistent, disciplined investment process. We believe building a concentrated portfolio of stocks in which we have strong convictions will help us outperform over time. To select stocks, we rely on fundamental and quantitative research, encompassing everything from meetings with company management to using analytical screening tools. Global research informs our decisions, with our analysts covering industries across major developed and emerging markets to help them form a broad picture. We look for companies that are currently operating below their normalized earnings — taking into account multi-year operating cycles — but are improving.

Q: What helped and hurt performance in 2009?

Our defensive positioning coming into the year worked well in January and February, but it caused us to quickly lose ground against our more aggressively positioned benchmark during the second-quarter rally. Moreover, our high-quality holdings were out of favor, as investors returned to many of the riskier names that had fallen sharply during the crisis. Throughout the year, we gradually trimmed our conservative holdings in favor of growth-oriented stocks, which contributed to our absolute returns.

Detractors. Specifically, our underweight of financial stocks hampered performance. We had limited exposure to the higher-risk investments that ultimately surged. Among the names we owned, Japanese financial firms Nomura and Mitsubishi UFJ suffered from Japan's market woes and anemic capital-raising, overshadowing positive gains from British life insurer Prudential PLC and Swiss investment bank Credit Suisse.

Our overweight of the healthcare and telecommunications sectors proved to be too defensive once sentiment shifted. Moreover, stock selection in healthcare was poor. Swiss medical product company Synthes experienced weak sales from the economic slowdown, and dialysis-care firm Fresenius suffered from healthcare reform concerns.

Contributors. Strong performance of some of our consumer discretionary holdings helped our results. Our contrarian thesis on advertising giant WPP Group began to play out in 2009 as the company profited from the cyclical rebound in ad spending. Global fashion retailer Inditex also performed well, and we believe it will continue to benefit from its supply chain integration and low cost structure. Also contributing favorably to returns was our security selection in the industrial sector. Notable holdings were aerospace supplier Rolls-Royce, which benefited from an improved outlook for the aerospace industry, and Asian conglomerate Hutchison Whampoa, which rallied significantly because of its exposure to emerging markets.

Overall, we are disappointed with our 2009 results, particularly the significant lag in the second quarter. We were simply not well positioned for the rapid market shift, which hurt us. Maintaining a highly concentrated portfolio raises the chances of experiencing large fluctuations in performance, both on the upside and downside. We are encouraged by our outperformance in the fourth quarter, but we know we will not outperform every month or every quarter. Instead, we are intently focused on outperforming over time, and we're confident that the disciplined process in place will lead to long-term success.

Q: Were there any notable changes in 2009?

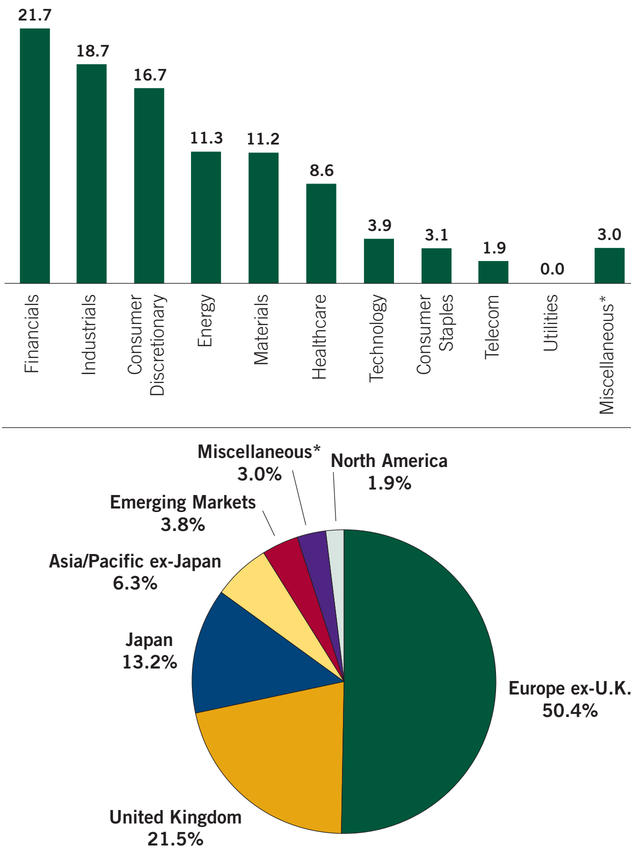
We continuously look for ways to improve, and one area we have focused on recently is strengthening our global sector research teams. Most notably, we hired three experienced senior analysts in our London office and promoted an internal professional to a global analyst position.

During the year, our research led us to shift the portfolio composition significantly, by buying stock in companies in which we have strong convictions and selling stock in companies in which we don't. Broadly speaking, we are much more tilted toward economically sensitive stocks now than we were at the start of 2009.

Q: How are you positioned now?

We have significant exposure to companies that are poised to benefit from the economic recovery, including several names in the industrials and materials sectors (Exhibit 12). Our stock selection process has led us to favor a number of companies in Switzerland and France and to avoid many Japanese names.

Exhibit 12: Diversification by Sector and Geography



Data and holdings reflect the Non-U.S. Large Cap Common Trust Fund as of December 31, 2009.
* Miscellaneous is composed of cash, currency, and short-term investments.
Source: FactSet

Q: What developments are you monitoring closely for 2010?

Corporate outlooks will remain critical. We will be closely evaluating whether executives are committed to continuing to rein in costs, even as end-market demand drives revenue growth. In particular, we are monitoring the opportunity for earnings improvements in Japanese companies, many of which have a renewed focus on profitability and are currently trading at depressed valuations. Within Europe, we are cautiously analyzing the financial health of countries in the Baltic region as well as other countries with high debt, such as Spain.

Global Small & Mid Cap

Overseer: Marc D. Stern; Portfolio Manager: John B. Hall; Sub-advisers: Champlain and Dimensional

2009 Performance Analysis

	Annualized: Periods Ending December 31, 2009	
	1 Year	3 Years
Global Small & Mid Cap Fund	**32.5%**	**2.2%**
MSCI World Small Cap Index	44.1	(5.5)

The Fund's inception date was April 5, 2005. Prior to October 2, 2008, the Global Small & Mid Cap Fund was named the Global Small Cap Fund and operated under a different investment strategy. Performance through October 2, 2008, represents performance of the Fund's prior strategy, which focused on small-capitalization companies. The performance shown may not be representative of performance the Fund will achieve under its current investment strategy. The performance presented above is after fees and expenses and reflects fee waivers and/or expenses reimbursements and reinvestments of distributions, if any. Without waivers/reimbursements, performance would be lower.

Q: What is the Fund's overall investment philosophy?

The Fund looks to capture the upside potential of small- and mid-sized companies around the world, which often have greater room for revenue and earnings growth than more established companies. These stocks are traditionally less correlated to the broader stock market than large-cap equities, making them an important component of a diversified equity portfolio. The Global Small & Mid Cap Fund team collaborates with two external sub-advisers whose investment styles complement its mid-cap strategy to create a portfolio of stocks well-diversified across geography and company size.

Q: What helped and hurt performance in 2009?

The Fund's cash position had a meaningful influence on performance — both positively and negatively — in the two distinct market periods of 2009. When markets plummeted in the fourth quarter of 2008, the Fund maintained an unusually large cash position, an allocation that stood at 66% at the beginning of 2009. This defensive strategy helped limit losses in the volatile early stages of the year. However, it was also the key factor detracting from performance once equity markets began to recover in March. Throughout the year, the Fund's team gradually deployed the cash weighting and pared similar defensive holdings in pursuit of attractive new opportunities. The Fund's cash weighting mid-year stood at 22%; by year-end, it was less than 5%.

Solid performance for each component. All of the Fund's components delivered strong absolute returns for the year:

- Global mid-cap equities managed directly by Bessemer Investment Management, LLC were up 52.2%;
- Global small- and mid-cap equities managed by sub-adviser Dimensional Fund Advisors were up 51.2%; and
- Sub-adviser Champlain Investment Partners delivered returns of 32.4% in U.S. mid-cap equities and 26.0% in U.S. small-cap equities.

Sub-adviser Dimensional and Bessemer's Mid Cap team outperformed the Fund's benchmark through favorable security selection and sector allocations, particularly in the consumer discretionary, technology, financial, and materials sectors. Champlain, which emphasizes higher-quality U.S. companies, lagged in a year when investors generally favored riskier securities.

Allocation to non-U.S. markets. The Fund benefited from the decision to bolster exposure to emerging-market countries, where the team saw attractive potential after the global market downturn brought valuations to extreme lows in late 2008. Mid-cap stocks selected by the Bessemer Mid Cap team benefited from greater weighting to developing nations such as Brazil, India, and Indonesia. Meanwhile, Dimensional outperformed because

of its emphasis on non-U.S. small-cap companies and emerging markets. Another key contributor to the Fund's performance was an underweighting of Japan, one of the worst-performing countries of the year. Nonetheless, the Fund's substantial weighting in U.S. equities detracted from relative returns.

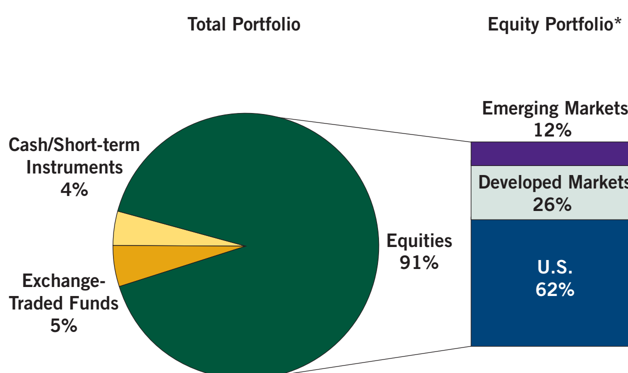
Q: Were there any notable changes in 2009?

The most notable change in 2009 was the move to deploy the Fund's significant cash position, primarily to Bessemer's Mid Cap team and Dimensional's global small-cap portfolio.

Q: How is the Fund positioned now?

Currently, the Fund has exposure to 43 countries, with a tilt toward the consumer discretionary, technology, and industrial sectors (Exhibit 13). Having brought the cash position down significantly, the Fund is now considered fully invested. The mid-cap portfolio managed by Bessemer is focused on companies believed to be earning below their average long-term earnings potential, with strong cash flow and solid balance sheets.

Exhibit 13: Allocation and Country List



U.S.

Developed Markets: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, United Kingdom

Emerging Markets: Brazil, Chile, China, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Luxembourg, Malaysia, Mexico, Philippines, Poland, Russia, South Africa, South Korea, Taiwan, Thailand, Turkey

* Includes exchange-traded funds.
Data reflects the Old Westbury Global Small & Mid Cap Fund as of December 31, 2009. Portfolio weightings are approximate.
Source: Champlain Investment Partners; Dimensional Fund Advisors; Bessemer Investment Management LLC, a member of the Bessemer Trust group of companies

Q: What developments are being monitored closely in 2010?

We are cognizant of how significantly stocks have rallied since early 2009, and the team is closely analyzing whether current valuations accurately reflect underlying realities for individual companies. We will also be looking for end-market demand to spur future revenue growth. Most of the recent progress in company earnings has been driven by aggressive cost-cutting and layoffs; for earnings to continue their resurgence, firms will have to rely on greater demand from consumers to increase their top lines.

Global Opportunities

Portfolio Manager: Gregory M. Lester, assisted by a team of Bessemer professionals;
Sub-advisers: BlackRock, Franklin Templeton, Shenkman Capital, and T. Rowe Price

2009 Performance Analysis

	Annualized: Period Ending December 31, 2009
	1 Year
Global Opportunities Fund	**21.3%**
S&P Global LargeMidCap Index	36.3

The Fund's inception date was November 27, 2007. The performance is presented after fees and expenses and reflects fee waivers and/or expense reimbursements and reinvestments of distributions, if any. Without waivers/reimbursements, performance would be lower.

Q: What is the Fund's overall investment philosophy?

Global Opportunities is a multi-asset-class portfolio designed to take advantage of market dislocations or historic extremes in any asset class across the world. The Fund relies on the analytical research and collaboration of both internal and external managers to uncover asset classes temporarily unhinged from their fundamentals. The Fund's mandate is inseparable from its performance goals of producing strong absolute returns, outpacing an all-equity benchmark over three- to five-year cycles, and limiting volatility on the way.

Q: What helped and hurt performance in 2009?

On an absolute basis, all of the Fund's asset classes did very well last year as global markets recovered sharply:

- Global equities managed by sub-adviser T. Rowe Price International, Inc. were up 48.2%;
- Global equities managed using Bessemer Investment Management's proprietary portfolio construction model were up 45.8%;
- Convertible bonds managed by Bessemer were up 36.4%;
- High-yield bonds managed by sub-adviser Shenkman Capital Management Inc. were up 27.5%; and
- Global fixed income managed by sub-adviser Franklin Templeton was up 20.9%.

Combining these asset classes helped limit the Fund's volatility to just 8.2%, versus 24.1% for the all-equity index.

Allocation to credit investments. In the throes of the market downturn in February, the Global Opportunities team saw an attractive opportunity in credit investments such as high-yield bonds, convertible bonds, and senior secured bank debt. At that point, a widespread fear of collapsing financial markets had prompted investors to sell many bonds indiscriminately, which pushed credit yields to unprecedented highs. As a result, many corporate bonds were lumped in the same category — despite the fact that many firms had sufficient cash flow to service their debts. When the team's analysis revealed that this temporary disruption represented significant potential upside with limited risk, the Fund began a major allocation shift from equity to credit.

Rising credit, soaring stocks. This thesis played out, as high-yield and convertible bonds performed strongly in absolute terms. However, equities fared even better during one of the sharpest stock-market rallies in recent memory. The Fund's shift away from equities hampered relative performance versus an all-equity benchmark.

Limiting downside with higher-quality debt. Within credit, the Fund focused on higher-quality bonds with low risk of default, in a year when the lowest-rated bonds rallied most. As such, convertible bonds managed by Bessemer and high-yield bonds managed by Shenkman Capital both trailed their respective benchmarks. While this emphasis on quality hurt relative returns, the decision to limit default risk was key in protecting against portfolio

losses. In last year's environment, the team believed the financial markets' precarious condition called for a strategy safeguarding against a steep potential downside.

Overall, the Fund was able to garner strong absolute returns in credit with just a fraction of the volatility that equities experienced. Though we would have liked Global Opportunities to participate more fully in the rally, we were pleased with this pattern of performance.

Q: Were there any notable changes in 2009?

Three stand out:

Credit. The most significant shift was the transition to credit throughout the year, as the Fund's allocation reached 68% while equity exposure fell from 42% to about 17%.

Mortgage-backed securities. The Global Opportunities team's research suggested the beleaguered housing market had created attractive opportunities in mortgage-backed securities. In October, the Fund initiated a position in this asset class through sub-adviser BlackRock, focusing on prime residential securities that aren't backed by federal housing agencies such as Fannie Mae or Freddie Mac. Mortgage-backed securities will likely comprise 10% of the Fund.

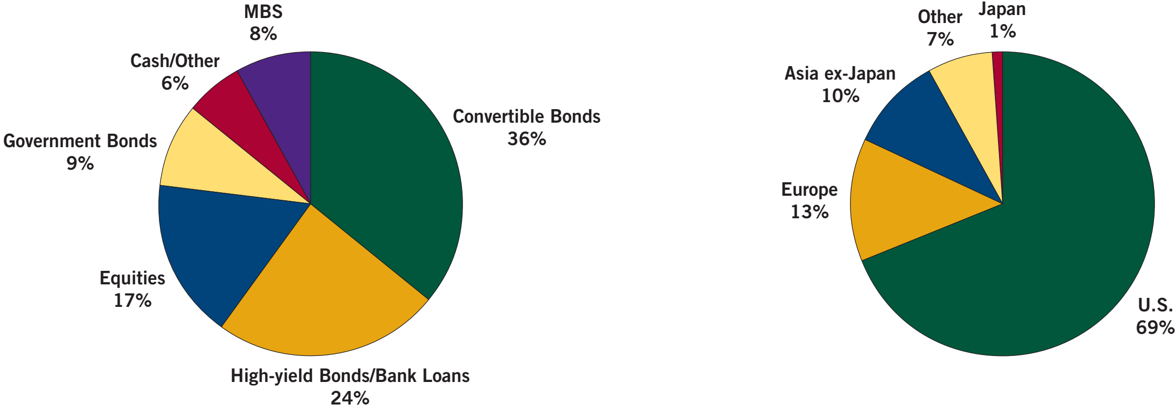
Currencies. On the foreign exchange front, the Fund's team has added exposure to emerging-market currencies such as the Brazilian real, Indian rupee, and Indonesian rupiah, based on underlying weakness for the U.S. dollar and improving economic and fiscal conditions in these developing markets.

Q: How is the Fund positioned now?

Credit continues to be a key strategy (Exhibit 14). Although credit spreads have fallen notably from their peaks during the credit crisis, spreads for B- and BB-rated bonds still trade at spreads 25% *above* their long-term averages. Overall, the Global Opportunities team has conviction that current credit spread levels will allow the Fund's high-yield and convertible bonds to remain competitive with equities, especially on a risk-adjusted basis.

Currently, 68% of the Fund is in non-government credit, with increasing exposure to mortgage-backed securities; 17% is in global equities; 9% is in government bonds, and 6% is in cash.

Exhibit 14: Portfolio Asset and Geographic Allocation



Overall Region	Fund
Developed	83%
Emerging	17

Data, holdings, and asset allocation reflect the Old Westbury Global Opportunities Fund as of December 31, 2009.
Equities asset allocation reflects a variety of strategies, including emerging markets, global growth equities, and global value equities.
Source: Bessemer Investment Management LLC, a member of the Bessemer Trust group of companies

In addition, current exposure to non-U.S. dollar currencies represents approximately 17% of the Fund. The team's analysis of relative real interest rates, debt levels, trade balances, and valuations has led the Fund away from the euro, British pound, and Japanese yen, in favor of emerging-market currencies.

Q: What developments are being monitored closely for 2010?

One key factor will be the Federal Reserve's next steps. Because of near-zero rates in 2009, many investors borrowed feverishly in U.S. dollars to purchase everything else: commodities, stocks, bonds, and other currencies. This has created unprecedented new correlations between asset classes. For instance, the euro and the U.S. equity market have traditionally moved independently, with a correlation near zero; last year, they moved almost in tandem. When the Fed rethinks its interest rate policy, many of these relationships could reverse. The Fund's team will be looking to take advantage of the corresponding opportunities that arise.

Real Return

Portfolio Manager: W. Preston Stahl, Jr.

2009 Performance Analysis

	Annualized: Periods Ending December 31, 2009	
	1 Year	3 Years
Real Return Fund	**25.8%**	**0.1%**
Barclays Capital U.S. TIPS Index*	11.4	6.7
Dow Jones-UBS Commodity Index	18.9	(3.8)

* The Fund's primary benchmark. The Fund's inception date was April 28, 2005. The performance presented is after fees and expenses and reflects reinvestments of distributions, if any.

Q: What is the Fund's overall investment philosophy?

Real Return seeks to achieve returns over inflation by investing in a broad range of instruments likely to benefit from a backdrop of rising prices — everything from commodities to inflation-linked bonds and real estate. The Fund's team analyzes the supply-and-demand dynamics behind a particular sector or commodity to model their underlying fundamentals and target those that are currently undervalued. This means identifying areas where there may be rising costs of production, a diminishing supply base, or heightened demand. Then, the Fund has the flexibility to choose whichever investment structure is most appropriate, be it investing in futures contracts, swaps, physical commodities, commodity-related equities, inflation-linked bonds, or exchange-traded funds.

Q: What helped and hurt performance in 2009?

The greatest factor behind the Fund's strong performance was the decision to stick with certain research conclusions on the heels of the worst two quarters for commodity performance in history. Even after breathtaking volatility and widespread fear had pummeled commodity markets in the second half of 2008, the Real Return team remained convinced that the fundamental theses behind many Fund holdings held true, and that many commodities had attractive return potential.

Positive contributors. In particular, the Fund's investments in gold, platinum, and palladium drove performance. Gold spiked considerably as investors sought a stable store of value while many governments debased their currencies through stimulus spending worldwide. Real Return had gold exposure through coins and bars, as well as shares of Peruvian mining company Buenaventura. A rebounding global automotive industry and higher costs of production pushed the Fund's holdings in palladium and platinum higher because both are used heavily in catalytic converters in cars and trucks.

Positions in copper also performed well as the industrial metal benefited from greater construction and transportation demand, particularly in China.

The team's thesis that the sugar market would hit a supply shortfall given cutbacks in India, one of the world's largest producers, came to bear. The Fund's positions in the sweet commodity rallied considerably throughout 2009.

Positive security selection in the energy sector contributed favorably to returns, through exposure to oil and gas firms such as Texas-based Petrohawk and Norwegian exploration company Aker Solutions.

The Fund was also overweight the outperforming infrastructure sector, which recovered in 2009 after a steep decline the previous year. FedEx, Arkansas Best, and Keppel Corp. were among the top performers in the sector.

Detractors. Real Return was underweight the strong performing industrial materials sector based on the belief that prices for metals were higher than what fundamentals would imply. Investments in Vale and Freeport McMoran were profitable, but limited exposure to the sector held back relative performance. With no exposure to real estate, the Fund didn't

participate in the sector's strong recovery in 2009. Also detracting from returns was its weighting to corn and soybeans, which performed poorly.

Q: Were there any notable changes in 2009?

Yes. At the beginning of the year, the Fund's team lowered Real Return's cash and TIPS allocation to take on more risk, deploying it toward industrial and agriculture holdings — particularly sugar — during the depths of the market downfall. Toward the end of 2009, the team decided it was prudent to trim some riskier holdings as some commodities markets moved closer to overheating.

Q: How is the Fund positioned now?

The Fund continues to emphasize energy, particularly natural gas (Exhibit 15). The team believes the stage is set for an eventual strong recovery, as demand is likely to resurface faster than drillers can restart the rigs they shut down in 2008 and 2009. In agriculture, the prospects for sugar still look very attractive, and the Fund is maintaining an overweight to precious metals, diversifying its gold position through greater platinum and palladium exposure. Copper, too, plays into the belief that the broad economic environment will continue to improve globally. The Real Return Fund has also increased its bonds-and-cash allocation in recent months, as the team evaluates several potential new investments.

Exhibit 15: Sector Weightings

	Percent of Portfolio	
	Neutral	Current
Agricultural Products	10.0%	14.7%
Industrial Materials	10.0	11.1
Precious Metals	12.5	14.9
Energy	15.0	18.1
Infrastructure	7.5	10.4
Real Estate	10.0	0.0
Bonds/Cash	35.0	30.8

Data reflects the Old Westbury Real Return Fund as of December 31, 2009.
"Neutral" represents Bessemer's general expectations for average long-term weightings and may not be realized due to a variety of factors.
"Current" represents portfolio weightings as of December 31, 2009, and is subject to change without notice.
Source: Bessemer Investment Management LLC, a member of the Bessemer Trust group of companies

Q: What developments are being monitored closely in 2010?

The Fund team is watching several commodities that are particularly intriguing in today's environment.

Steel. Costs of production for steel producers are poised to skyrocket as two key energy inputs, iron ore and metallurgical coal, are in increasingly short supply. Since the derivatives market offers limited liquidity, the Fund may consider equity exposure to iron ore and coal producers.

Cattle. Previously low birth rates for cattle, coupled with potentially higher global demand for beef, has created a possible undersupply that could drive cattle prices upward. Furthermore, this supply problem may not have an immediate remedy, since it takes several years to feed and raise cows.

European natural gas. Europe relies heavily on natural gas imported from Russia, but Russia may not be able to meet increased demand from the continent in coming years. As a result, the Real Return team is looking at new investment opportunities this may create in natural gas, gas storage, and pipelines.

Shifts in carbon policy. Increasing efforts from global policymakers to combat climate change and regulate emissions could have implications for many potential investments that the team is monitoring carefully, ranging from nuclear energy to coal to utilities companies.

Hedge Funds[2]

Director of Hedge Funds Program: Daphne L. Bradshaw-Mack

Q: What is your overall investment philosophy?

We have designed a niche global fund-of-funds program to deliver solid risk-adjusted returns over a full market cycle, providing lower volatility and less correlation to the broad equity and fixed income markets. Rigorous research helps us identify and monitor managers who meet our strict criteria (e.g., strong and stable organization, alignment of interests with investors, disciplined investment process). We build concentrated portfolios of 12-20 managers in whom we have strong conviction, and we proactively manage a diversified strategy allocation.

Q: How did Bessemer-managed hedge funds perform in 2009?

Regulatory requirements permit us to provide detailed performance information only to investors in our hedge fund program. Broadly speaking, our hedge funds delivered strong absolute returns in 2009 that were on par with the robust performance of the broad equity indexes. Entering the year, our defensive posture allowed us to protect on the downside during the first few months, posting flat results as global equity indexes fell sharply. As markets recovered, we captured much of the upside while remaining fairly consistently hedged.

Q: What helped and hurt performance in 2009?

In a challenging investment environment, the importance of manager selection and monitoring becomes apparent. Our disciplined process positioned us well for both the weak market period at the start of the year and the rally that followed. The main positive contributors to our performance included:

Allocation to agile managers. Overall, our managers maintained conservative stances established in late 2008 as they entered the new year. Defensive positions included lower net exposure to the markets, higher cash positions, and reduced leverage. These strategies helped our managers generate flat-to-positive results despite sweeping market declines in January and February. As the environment shifted toward recovery in March, these same managers moved into more fully invested positions, taking advantage of the potential created by the market dislocations, while maintaining cautious overall net market exposure. Rather than making significant directional calls, our managers relied on company and credit-specific investments to drive returns.

Tactical trading. Many managers used shorter-term tactical trades to enhance returns. They targeted companies with near-term events that were likely to generate upside potential with limited correlation to market direction.

Global exposure. Although our more concentrated exposure to non-U.S. markets had significantly detracted from our 2008 performance, we stood by our research conclusion that global markets held attractive investment opportunities for skilled managers. We were rewarded for our patience, as these same managers were some of our strongest contributors in 2009.

Emphasis on credit and relative value strategies. Our decision to enter the year focused on a broad range of opportunities in "stressed" and distressed credits as well as relative value strategies played out well. Our managers took advantage of extreme market dislocations in mortgage-backed securities and convertible bonds as well as opportunities in event-driven debt and equity positions, corporate restructurings, and rescue financings. In addition, some managers emphasized capital structure and relative value arbitrage strategies. Pricing anomalies within companies' balance sheets presented the option to invest long and short different parts of the capital structure, again with little overall market directionality.

[2] Alternative investments, including Bessemer hedge funds of funds, are not suitable for all clients and are available only to qualified investors.

Long-only value creation strategy. After years of careful selections, we are well positioned with managers who have built core positions and strong active relationships with their portfolio companies' managements and boards. Today, we have investments with eight managers who have core investments in 51 public companies, with board seats on nearly half. Our managers are working from within the companies to drive change and unlock value. Significant company-specific events throughout 2009 helped drive strong investment results in this area.

Detractors. Two primary factors hurt our 2009 performance. Most significantly, short exposure and market hedges dampened returns given overall market strength from March onward. Although our absolute return and hedged equity managers increased their gross exposure to the market throughout the year, their net exposures remained moderate, reflecting their cautious view of the investing world.

The second detractor was our limited exposure to the lower-quality stocks that led the 2009 market rally. In addition, some of our managers believed these lower-quality stocks presented shorting opportunities — only to see the market carry them higher. We will not depart from our longstanding emphasis on managers relying on fundamental company analysis to uncover investment opportunities. Moreover, we anticipate higher-quality stocks will be the next beneficiaries in the market cycle.

Q: Were there any notable changes in 2009?

Perhaps most notably, we had to make very few changes to our lineup during a time when hundreds of hedge fund managers closed their doors because of poor performance, overwhelming investor redemptions, or excessive business risks. Of the nearly 70 managers in our overall program, only one restructured and one is in the midst of an orderly liquidation as a result of the 2008 challenges.

While we are pleased with the quality and overall stability of our manager lineup, we are continuously reviewing our managers and taking advantage of investment opportunities with some new firms as well. In 2009, we met with over 400 managers, funded five new firms, and anticipate adding a few more in 2010.

As part of the broader asset allocation changes made in February 2009, we modestly increased our exposure to absolute return strategies. This included adding new managers who positioned us toward a broad range of credit and relative value strategies. We have made only modest changes to our managers pursuing hedged equity and value creation strategies, reflecting our conviction that our solid manager lineup is well balanced across global regions and manager investment style.

Q: How are you positioned now?

We would highlight four key strategies:

- Exposure to a broad array of credit opportunities, such as mortgage-backed securities, corporate distressed debt and restructurings, convertible bond arbitrage, capital structure and relative value arbitrage, and rescue financing.
- Focus on near-term event-driven equity investments, such as opportunistic trades, relative value strategies, and opportunities stemming from mergers and acquisitions.
- Maintain consistently hedged stance, with a focus on managers who use fundamental research to uncover long and short opportunities.
- Exposure to attractive long-only value creation opportunities through managers who have a history of working collaboratively and constructively with company management and boards.

Q: What developments are you monitoring closely for this year?

We are keeping a close eye on the move toward greater regulatory oversight, which will likely result in broader disclosure requirements and greater portfolio transparency. The majority of our managers have willingly registered with the Securities and Exchange Commission already, but new regulations will likely create challenges for the industry as a whole. Ultimately, we see this as a healthy long-term change that will further separate the strong from the weak.

Fixed Income

Portfolio Manager: Harold S. Woolley

2009 Performance Analysis

	Annualized: Periods Ending December 31, 2009			
	1 Year	3 Years	5 Years	10 Years
Fixed Income	**3.6%**	**7.9%**	**6.3%**	**7.0%**
Barclays Capital Government/Credit Index	4.5	5.8	4.7	6.3

The performance presented above is derived from Bessemer's Fixed Income Common Trust Fund and is before fees and expenses.

Q: What is your overall investment philosophy?

Our focus is on very high-quality securities with limited credit risk—from Treasury and government agency bonds to corporate issues. Our portfolio team analyzes market inefficiencies, the latest developments in government policy, and changes to the yield curve in assessing the credit quality of each individual bond. The portfolio's role is to provide stability and balance to a well-diversified overall portfolio, protecting capital during hostile equity markets and offering a solid source of income in calmer ones.

Q: What helped and hurt performance in 2009?

In a stark reversal of the previous year's trend, low-grade securities performed best in 2009. For example, 10-year U.S. Treasuries actually had a (9.8)% rate of return last year, compared to returns of (0.1)% for AAA-rated corporate bonds and 27.2% for BBB-rated.

Low relative exposure to credit. As a result, our portfolio's higher-quality orientation than the benchmark's caused relative performance to trail. We began the year with a very small weighting to corporate credit and maintained a lower allocation than the benchmark throughout the year. The non-government bonds we did own were lower-risk — primarily AAA- and AA-rated — which further detracted from relative performance.

Adding to corporates. On an absolute basis, however, our decision to gradually increase credit risk by adding corporate bonds played out in our favor. Throughout the year, we transitioned from a 7% initial allocation to nearly 27% by year-end.

Intermediate concentration. Our emphasis on intermediate-maturity securities helped returns, as the rise in interest rates was greater for long-term securities.

Q: Were there any notable changes in 2009?

In July, our team added a new credit analyst with 15 years of experience who specializes in corporate bonds, as part of our increased emphasis on the high-grade corporate sector. One other noteworthy part of this greater shift toward credit was that we gravitated toward initial corporate offerings, which tend to be priced cheaper because of a corporation's desire to raise capital quickly.

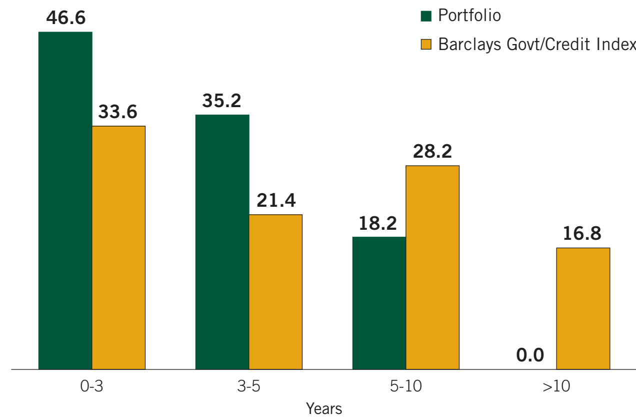
Q: How are you positioned now?

Today we remain focused on high-quality securities with maturities ranging from three to nine years (Exhibit 16). Though we continue to position our portfolio to be protective, we have continued to add to our holdings of corporate bonds to earn additional yield.

Exhibit 16: Characteristics of Holdings

Characteristics	Portfolio	Barclays Govt/Credit Index
Duration	3.7 years	5.3 years
Rating	AA	AA

Maturity Comparison



Data reflects the Fixed Income Common Trust Fund as of December 31, 2009.
Source: Barclays Capital, Bloomberg

Q: What developments are you monitoring closely in 2010?

Inflation is always a key concern for us, since the fixed coupon of bonds is a disadvantage during periods of rapidly rising prices. Given the anemic state of the U.S. economy, we do not anticipate that today's record-low interest rates will spark inflation in the near term; nevertheless, we will be watching the Fed very closely to see how the central bank responds to the ongoing tension between persistent economic weakness and mounting signs of recovery. Particularly in a Congressional election year, the Fed will face considerable political pressure in setting interest rate policy.

We're also paying special attention to the fiscal environment — in the U.S. and abroad. High government expenditures and diminished tax revenues throughout the recent global downturn have created potentially troublesome budget deficits that could have significant consequences for the future interest rate environment and global economy.

Municipal Bond

Portfolio Manager: Bruce A. Whiteford

2009 Performance Analysis

	Annualized: Periods Ending December 31, 2009			
	1 Year	3 Years	5 Years	10 Years
Municipal Bond	**8.9%**	**5.3%**	**4.7%**	**6.0%**
Barclays Capital Municipal Index	12.9	4.4	4.3	5.7

The performance presented above is derived from Bessemer's Municipal Bond Common Trust Fund and is before fees and expenses.

Q: What is your overall investment philosophy?

We apply our independent research to find high-quality bonds, particularly general obligation and essential service issues — those that finance vital projects such as repairing a town's water system. These types of bonds generally offer more security than those backed, for instance, by revenues from healthcare, real estate, or industrial development projects. We conduct our own credit analysis apart from ratings agencies and bond insurers, evaluating factors such as the issuer's credit history, sources of revenue, employment base, legal structure, and the quality of its disclosures.

Q: What helped and what hurt performance in 2009?

We didn't fully participate in the municipal rally this year; our returns, as they've been historically, were less volatile than the benchmark's. We believe this pattern of performance fits into our primary goal of achieving strong absolute returns with limited volatility over longer market cycles.

Resurgence of lower-quality bonds. The widespread flight to quality that benefited the portfolio in the market turmoil of 2008 was the main reason for its underperformance in 2009. Investors, sensing greater stability in financial markets after unprecedented government intervention, opted for more risk and greater return, propelling the lowest-rated municipal bonds upward. Our higher-quality bent, with an emphasis on essential service or general obligation bonds, led us to underperform the benchmark, which had greater exposure to bonds with less secure underlying revenue streams.

Build America Bonds. Another detractor to returns was the portfolio's lower weighting than the benchmark to long-term bonds, which fared particularly well after the federal government allowed for the issuance of Build America Bonds. Municipalities could issue these stimulus-themed, fully taxable bonds while recuperating a portion of the interest costs from the government. This tightened the supply of long-term tax-exempt bonds and pushed their value upward.

Q: Were there any notable changes in 2009?

As credit markets showed signs of greater stability, we ventured more into select AA- and A-rated securities to benefit from historically wide credit spreads. Nevertheless, our independent research steered us away from many nonessential service bonds, because they often hinge on relatively volatile sources of income.

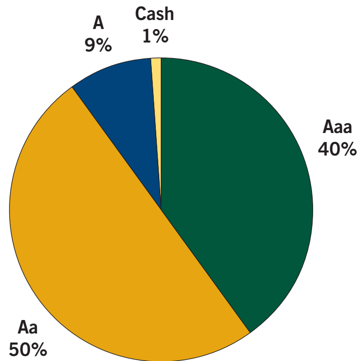
Q: How are you positioned now?

Our average credit rating is AAA/AA, and we have extended the portfolio's average duration to be closer to that of the benchmark, reflecting our willingness to accept modestly higher risk (Exhibit 17). We remain focused on building a diversified portfolio of high-quality, intermediate securities with a heavier concentration of maturities in the 5- to 15-year range, and we don't hold any bonds that are subject to the Alternative Minimum Tax (AMT). Since we don't think inflation presents an immediate concern given the state of unemployment and overall economic weakness, we will continue to consider extending maturities slightly to earn additional yield.

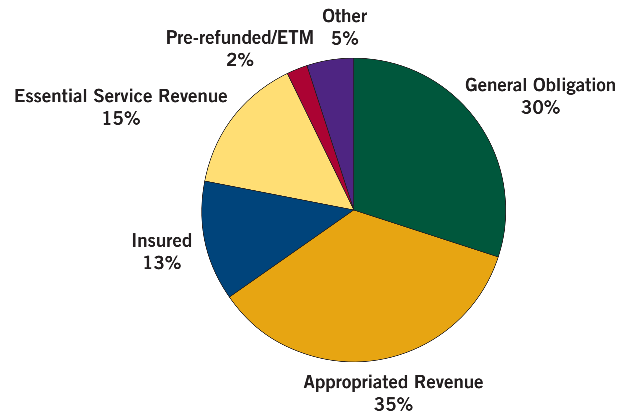
Exhibit 17: Characteristics of Holdings

Characteristics	Portfolio	Barclays Municipal Bond Index
Duration	8.0 years	8.3 years
Rating	Aaa/Aa	Aa2/AA3

Quality



Sector Allocations



Data reflects the Municipal Bond Common Trust Fund as of December 31, 2009.
Quality ratings (Aaa, Aa, A) refer to the credit quality of the underlying bonds in the portfolio and not that of the portfolio itself.
Source: Barclays Capital, Bloomberg

Q: What developments are you monitoring closely for 2010?

We're paying special attention to the financial situation for municipalities. Even though credit spreads have narrowed considerably, the underlying finances of most municipalities haven't improved; many face large deficits and diminishing tax revenues. That said, broad generalizations may be inaccurate. Even within a challenged state, we can often uncover bonds with attractive risk/return characteristics. With such a challenging financial environment for bond issuers, it is especially important to distinguish between the strong and the weak — making independent research all the more critical.

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