

Quarterly Investment Perspective

Balanced Measures

A Letter From Marc D. Stern, Chief Investment Officer

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Dear Client,

If someone had forecast at the beginning of 2011 that during the year the U.S. would see its government on the verge of shutting down, a Congressional supercommittee fail to address the country's fiscal problems, and its credit rating downgraded for the first time in history, it may or may not have been believable. But if that same person had said that, despite all of this, the U.S. stock market would be the only major one in the world to finish 2011 in positive territory, you could be forgiven for thinking it implausible.

And yet that's exactly what happened in 2011.

Indeed, in many ways this past year defied expectations. Throughout 2011, investors sought to digest extraordinary global developments: Devastation in Japan last March led to tragic casualties and disruptions to automotive and technology supply chains around the world; debt problems in Greece forced banks to take a 50% "haircut" on the face value of their government bonds, and troubles spread to the broader euro zone; and there were an unusually large number of leadership changes around the world, both within Europe (including Greece, Ireland, Italy, Portugal, and Spain, as well as the European Central Bank) and elsewhere (Egypt, Libya, North Korea, and al-Qaeda).

Markets reacted to these turbulent events with more turbulence, creating a difficult investment environment. After the first four months of investors taking on risk and driving the U.S. stock market up 9%, many European markets up 20%, and commodity prices higher, markets swooned.

Summer headlines on the intensifying European debt crisis and U.S. fiscal troubles led to widespread risk aversion. In this "risk-off" period, markets fell sharply, especially in Europe. Investors sought the perceived safety of U.S. Treasury bonds. Then late in the year, European policymakers made some progress and U.S. economic data looked somewhat better, leading markets to snap back, particularly on this side of the Atlantic. In the end, the U.S. trumped all other major markets for the year.

Most of last year's challenges will carry over into 2012, which we will discuss later in this letter. First, though, we'll examine our results in 2011.

2011 Results

Some of what transpired in 2011 we had expected would occur. Corporate profits surpassed consensus estimates, the global economy grew a moderate 3¹/₂%, defying forecasts of a double-dip recession, and markets pulled back after a strong start.

However, other developments surprised us, especially the surge in risk aversion that drove five-year Treasury yields to a strikingly low 0.83% at year-end. Greater demand for safety also pushed up the U.S. dollar and caused the S&P 500 Index to fall short of the 1400 target we had described at the beginning of the year.

In this environment, the results of most of our portfolio teams were competitive versus their benchmarks, as was the case with Global Small & Mid Cap, Global Opportunities, and Real Return. But these were more than offset by shortfalls in the following three areas:

Large cap equities. Most notably, large cap security selection, especially in economically sensitive companies that were hurt by the sharp market sell-off in the third quarter, detracted from returns. In addition, the cash level we built as global risks grew from June to September hindered our results in the October market rally.

Bonds. With interest rates at historic lows one year ago, we reduced our bonds' sensitivity to rates to protect against potentially rising yields. And we felt the U.S. dollar was vulnerable at a time when Washington, D.C., wasn't making needed changes to restore long-term fiscal health. Yet investor concerns about the sustainability of the euro zone caused interest rates to move improbably lower — and the dollar to move improbably higher.

Global exposure. Even as the U.S. experienced some troubling setbacks, anxious investors fled to the perceived safety of U.S. stocks, Treasury bonds, and the dollar. Markets in Asia, Europe, and Latin America fell sharply. Emerging markets fared the worst, with Brazil, China, and India losing 26% on average. Investing across the globe hurt our results.

Taken together, these factors led to a disappointing year for our portfolios, with returns falling well short of our historical results and standards (Exhibit 1). About half of Balanced Growth's shortfall against the global benchmark came from the large cap portfolios, with the remainder split across our protective stance in bonds and our global positioning.

Our 2011 returns look especially disappointing in relation to the U.S. benchmarks. In most other time periods, our global platform has helped us deliver better returns than a U.S.-centric investment approach. For example, even including a difficult 2011, our Balanced Growth returns since 2005

Exhibit 1: Performance Overview

	2011	Since January 2005 Annualized	
		Return	Volatility
Bessemer Balanced Growth	(6.7)%	3.9%	10.2%
Global Balanced Growth Index	(1.9)	4.1	11.3
U.S. Stock/Bond Index (70/30)	4.5	3.8	11.6
U.S. Stocks	2.1	2.6	16.4
Non-U.S. Stocks	(13.7)	1.5	20.0

As of December 31, 2011. Past performance is no guarantee of future results.

The Bessemer Balanced Growth portfolio represents a model portfolio composed of a broad mix of global equities, fixed income securities, commodities, currencies, and hedge funds. Investments cannot be made directly in this model portfolio. Relative weightings vary over time. Volatility is measured by annualized standard deviation of monthly returns. This figure is most meaningful over multiyear periods.

U.S. stocks represent the S&P 500 Index. Non-U.S. stocks represent the S&P Global Large Cap ex-U.S. Index since 12/31/2010 and the MSCI EAFE Index prior to 1/1/2011. Please see page 7 for a complete description of Bessemer's portfolios and benchmarks.

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

have outpaced the S&P 500 with the added benefit of lower volatility. We are committed to global investing and will continue to proactively manage our exposure to the world's markets.

We are also staying the course in the fixed income area. The unattractive risk/return tradeoff we see in investment-grade bonds warrants our protective stance within fixed income portfolios.

However, as an independent firm owned by its largest client, Bessemer always stands ready to make needed changes. In assessing the track record of our portfolios, we examine their rolling three-year returns and volatility versus their benchmarks. While certain portfolios have struggled at certain times, most of our portfolios have outperformed most of the time.

Late last year, we redefined our large cap equity structure to improve the consistency of our results. We added a lower-volatility approach through Large Cap Core and brought together three complementary managers in Large Cap Strategies.

Further changes are underway. In early January, we hired Michael Crawford, an experienced portfolio manager with a strong record of success, to lead the Large Cap Strategies team (see page 11 for more on Michael's background). Along with associate portfolio managers Hank Hagey and Jeff Rutledge, Michael will oversee a team of analysts in New York and London who are seeking well-positioned companies with strengths not fully reflected in their prevailing stock prices. We believe the deep value approach of Oldfield Partners and the aggressive growth approach of Sands Capital Management will continue to complement the Bessemer strategy.

We are confident the changes we have implemented will prove beneficial for clients over time.

Expectations for 2012

Our expectations for 2012 center on four themes (Exhibit 2).

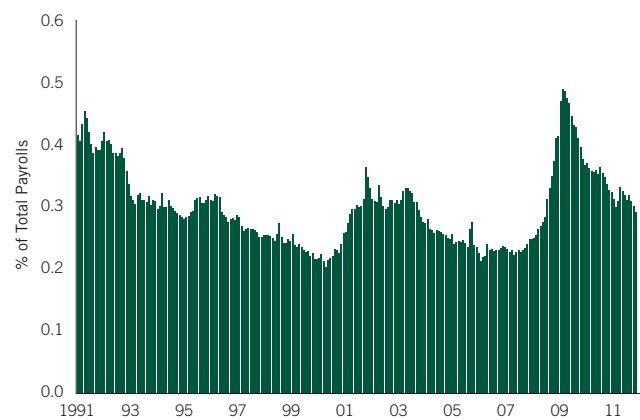
Exhibit 2: Forces in 2012

U.S. economy grows modestly	Europe struggles, but avoids catastrophe	Overall global growth slows	Corporate profits pull back from peaks
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U.S. economy grows modestly. The size and breadth of the U.S. economy have been on full display lately, with recent data coming in somewhat better than expected. Some of the bright spots include the following:

- **Household debt.** Consumers are seeing less of their incomes consumed by debt service, which includes mortgage payments, property insurance, property taxes, and consumer debt like credit cards and auto leases. Savings levels are up a bit, refinancing has brought down mortgage payments, and foreclosures are a meaningful factor too. All of this has contributed to households trimming their monthly debt service by nearly one-fifth over the past four years.
- **Jobs.** The job market is improving, albeit modestly. New unemployment claims as a percentage of total payrolls have come a long way from the worst levels of 2009 (Exhibit 3).
- **Exports.** U.S. exports have boomed 23% from the bottom in 2009. American companies with global footprints are finding many opportunities to sell across the globe.

Exhibit 3: Unemployment Claims



As of December 31, 2011.
Source: U.S. Bureau of Labor Statistics

All of this improvement has recently sparked visions of “decoupling” — where U.S. growth will continue to pick up steam while other countries lag. We’re skeptical of this view, however, because of the significant interconnections across geographies today. With global trade representing half of overall economic activity, developments around the world increasingly shape the U.S. growth outlook.

Europe struggles, but avoids catastrophe. Casting a shadow over advances in the U.S. are the serious problems in Europe. The greatest underlying issue is slow growth. Over the last 20 years, the U.S. has grown 1% faster per year than Europe. That amounts to a big difference over time — 151% versus 118%. Until Europe finds a way to close this gap, it will be difficult to resolve its problems.

More alarming is the state of European banks. As shown in Exhibit 4, Deutsche Bank, BNP Paribas, and Credit Agricole taken together are almost as big as JPMorgan, Bank of America, and Citigroup combined. But the European banks have much less equity capital to absorb losses: less than 40% of the comparable figure for the big U.S. banks. Until they increase their capital (probably through a combination of public and private funding), it will be difficult for European banks to provide the lending that is needed to help their local economies achieve faster growth.

Exhibit 4: European Banks Have Insufficient Capital

Bank	(\$ Trillions)	Tangible Equity/Assets	
		2007	2011
JPMorgan	6.4	3.2%	5.9%
Bank of America			
Citigroup			
Deutsche Bank	5.9	1.9%	2.2%
BNP Paribas			
Credit Agricole			

As of September 30, 2011.
Source: European Central Bank

The problems are serious enough that the banks don’t even trust each other. While they could earn a healthy yield in the overnight market by lending to other banks, they have increasingly chosen instead to accept a paltry 25 basis points on deposits they’ve placed with the European Central Bank. In normal times, such deposits are near zero, but today they are €150 billion and rising.

Yet we don’t expect the euro zone to collapse.

Three factors suggest the Europeans have the ability to avoid worst-case scenarios.

First, Greece is not representative of the rest of the region, as shown in Exhibit 5. For instance, Spain and Italy’s economies are much larger, with a lower current account deficit (so they aren’t nearly as dependent on financing from other countries), lower outstanding debt, and lower budget deficits. France and Germany represent nearly half of total euro-zone GDP, and while they have meaningful debt as well, their large size and positive current account are important assets.

Exhibit 5: Greece Is Different

	Greece	Spain/Italy	France/Germany	U.S.
GDP (\$ Trillions)	\$0.3	\$3.8	\$6.4	\$15.1
Current Account (% of GDP)	(8.4)%	(3.6)%	2.3%	(3.1)%
Gross Federal Debt (% of GDP)	166%	99%	85%	100%
Budget Deficit (% of GDP)	(6.9)%	(3.3)%	(2.6)%	(6.4)%

As of September 30, 2011.
Source: World Bank

Second, now that Chancellor Merkel and President Sarkozy have stepped up their efforts to push Europe toward greater fiscal union, progress is finally starting to come out of the numerous summits. In addition, the bailouts are now coming with strings attached, requiring some loss of local sovereignty in favor of modified policies. The newly elected “technocrats” in the region are taking some needed steps, including raising retirement ages and bolstering tax collection.

But the most important improvement in Europe is the third factor: actions of the euro zone’s central bank.

Jean-Claude Trichet served as European Central Bank president until October 31, 2011. Throughout his term, he focused on snuffing out inflation. In normal times, such a disciplined approach can be appropriate. But Trichet raised interest rates twice even as Europe’s problems were bubbling over in 2011.

On November 1, Mario Draghi took over the European Central Bank. In his first 38 days, he cut rates twice and adopted nonstandard methods of pumping liquidity into the system. The central bank has now doubled its lending to banks and expanded its balance sheet by 43% since midyear, mostly by buying European government bonds. Ben Bernanke wrote this playbook three years ago; Jean-Claude Trichet eschewed it, while Mario Draghi seems to be embracing it.

Overall global growth slows. When nations face substantial debt, growth is critical. At the moment, the global economy isn’t likely to collapse, but isn’t likely to grow rapidly either.

We monitor a wide range of data points, including those from the Economic Cycle Research Institute (ECRI), a research think-tank with a better track

record of predicting economic cycles than other forecasters. Recent data suggests that many of the major countries outside the U.S. will struggle in 2012, with Europe and Japan likely slipping into recession and emerging-market growth falling short of prior targets.

This softness is showing up in world trade volumes, which are still growing but at a slower pace than before.

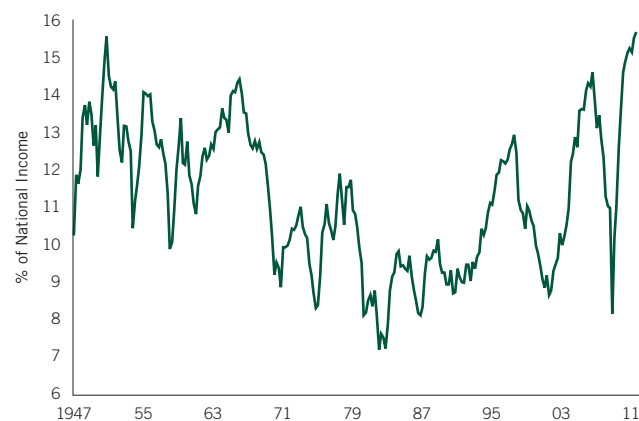
Finally, we closely monitor purchasing-manager surveys in key Asian markets — China, Singapore, South Korea, and Taiwan. Asian companies have been reporting contracting activity, although the trend appears to be improving somewhat. Reports over the next few months will figure prominently in our overall thinking.

On the whole, we expect slower global growth to be a headwind in 2012.

Corporate profits pull back from peaks. Of course, when we invest in equities, we aren’t buying survey results or trade flows — we’re buying companies, whose earnings power will ultimately be critical in our returns. In that light, profit margins have rebounded sharply from their lows in early 2009, and current earnings have reached record highs.

But profit estimates have come down a bit, as the difficult overall environment presents challenges for companies to navigate through. Indeed, companies like Oracle, DuPont, Texas Instruments, and General Mills have recently missed earnings estimates or taken down their guidance. This is part of a broader trend: Fourth-quarter downward revisions were the most prevalent in a decade. Moreover, we are likely beginning to bump up against the natural limits to corporate profits, which may have reached an unsustainably high portion of overall national income (Exhibit 6).

Exhibit 6: Corporate Profits



As of September 30, 2011.
Source: Standard & Poor's

With profits as strong as they are, one might expect to see a lot of bullishness among CEOs. In fact, though, the situation is more nuanced. When asked about their own company's outlook for the next six months, CEOs seeing the next six months positively outnumber those with a negative view by more than 5 to 1. But as to the overall economic outlook, the same respondents are gloomier: The CEO confidence index is 22% below normal.

The same survey, conducted by the Business Roundtable, spotlights concerns about burgeoning cost pressures. In addition to the usual suspects of energy and materials costs, it's notable that a combined 44% of CEOs highlight regulation and healthcare as their most serious cost problems. These are issues we hear a lot about in our one-on-one meetings with company managements.

As CEOs face uncertainty in the world, so do investors.

Here we highlight four additional factors whose outcomes are capable of shaping 2012 market returns.

- **U.S. housing market.** After overexpansion in the middle of the last decade, an extended pause in new construction is bringing supply and demand back to a healthier balance. Affordability levels are near record highs, which could bring a modest housing pickup that adds to overall economic activity.

- **China.** The country's ability to end an investment bubble and cut inflation without causing an unwanted slowdown is bound to have global implications. Moreover, the country's relationship with the U.S. is growing more complex as trade rhetoric intensifies and both nations move into a season of political change. While continuation of China's growth is far from guaranteed, we expect the country to grow in 2012 at an impressive 8% rate.
- **Middle East.** Tensions are flaring up with Iran, the world's third largest exporter of oil. Adding to the uncertainty are recent developments in Egypt, Libya, and Syria, which aren't reinforcing earlier hopes about an "Arab Spring." Any move toward armed conflict in the region would likely cause a painful spike in oil prices.
- **Monetary policy.** Stimulative policies, high government debt, and a gradual rise in inflation suggest bond yields could move higher, especially if additional steps by the European Central Bank further reassure investors. Yet setbacks that reignite deflationary pressure could push yields lower in markets perceived as safe havens — primarily the U.S., Germany, and Japan.

Portfolio Positioning

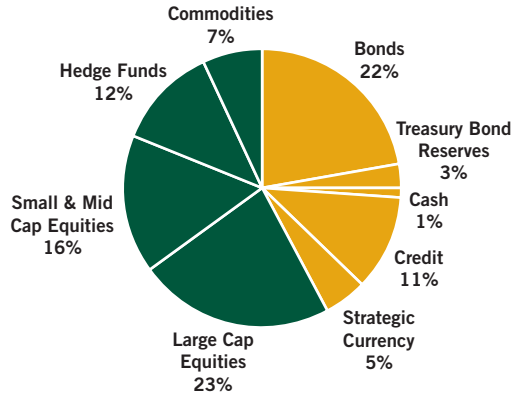
Given the complexity of the current investment environment, our approach is to achieve a balance between strategies designed for protection and growth (Exhibit 7). Indeed, early in 2012, we decided to gradually deploy a cash reserve we built last year into both defensive and growth-oriented strategies.

The defensive measures that we are currently taking within our Balanced Growth portfolio include overweighting credit investments, emphasizing lower-volatility equities, underweighting financials, owning long-dated Treasury bonds, and underweighting the euro.

In contrast, the measures we are taking to capture growth include overweighting sectors that will likely benefit from a rebound such as industrials, consumer

discretionary, and materials, underweighting high-quality bonds, and maintaining exposure to commodities and hedge funds.

Exhibit 7: Balanced Growth Positioning



Reflects pro forma Balanced Growth allocation.

We believe this positioning will provide protection if fundamentals deteriorate and upside participation if risk aversion moderates.

A full discussion of how our portfolios are currently positioned begins on page 8.

We began the new year with optimism. Even as important changes are taking place in our platform and in key leadership roles, we will continue to adhere to a disciplined investment process that emphasizes fundamental research to invest in compelling opportunities around the world. Moreover, our view that clients’ wealth is irreplaceable remains at the core of our asset allocation approach. I look forward to sharing our research conclusions and investment strategies in the coming quarters.

Sincerely,

Marc D. Stern
Chief Investment Officer

Past performance is no guarantee of future results.

2005 is the first full reporting period since Bessemer Trust’s Chief Investment Officer assumed responsibilities for investments.

The **Bessemer Balanced Growth Portfolio** represents a model portfolio comprised of Large Cap Core, Large Cap Strategies, Global Opportunities, Global Small & Mid Cap, Real Return, Fixed Income, Strategic Currency, and three Bessemer hedge funds of funds. Investments cannot be made directly in this model portfolio. Relative weightings vary over time. Returns for Old Westbury Large Cap Strategies Fund, 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. Returns for Bessemer’s Strategic Currency portfolio and Large Cap Core and Fixed Income Common Trust Funds are shown before fees and expenses. The results also include the reinvestment of all dividends and capital gains.

Prior to November 2011, Large Cap Core was named U.S. Large Cap and Large Cap Strategies was named Non-U.S. Large Cap, and these portfolios operated under a different investment strategy and capitalization range. 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 began July 1, 2005, are preliminary, and are subject to change. Alternative investments, including Bessemer hedge funds of funds, are not suitable for all clients and are available only to qualified investors.

The **Global Balanced Growth Index** represents a mix of the Barclays Capital U.S. Government/Credit Index (25%), S&P 500 Index (15%), S&P Global Large ex-U.S. Index (10%), S&P Global MidSmallCap Index (14%), S&P Global LargeMidCap Index (14%), Real Assets (7%, consisting of Dow Jones-UBS Commodity Index [5%] and Barclays Capital U.S. TIPS Index [2%]), Hedge Funds (10%, consisting of S&P Global Broad Market Index (Hedged) [7%] and Barclays Capital U.S. Government Index [3%]), and 3-Month Treasury Bills (5%) after 12/31/2010, and a mix of the S&P 500 Index (25%), S&P Mid Cap 400 Index (10%), MSCI EAFE Index (14%), MSCI World Small Cap Index (5%), MSCI Emerging Markets Index (3%), HedgeFund.net Fund of Funds Aggregate Index (10%), Dow Jones-UBS Commodity Index (2.5%), Barclays Capital U.S. Government/Credit Index (25%), Barclays Capital U.S. TIPS Index (2.5%), and 3-Month Treasury Bills (3%) before 1/1/2011.

The **U.S. Stock/Bond Index (70/30)** is a composite of 70% S&P 500 Index and 30% Barclays Capital U.S. Government/Credit Index.

Large Cap Core

Portfolio Manager: Marc D. Stern, assisted by Associate Portfolio Managers Alex Lloyd and J. Alex Christie

Large Cap Core launched on November 21, 2011.

Q: What is your overall investment philosophy?

Large Cap Core is a global portfolio of large cap stocks designed to outperform the S&P Global LargeCap Index over full market cycles with lower volatility. Our internal portfolio team relies on both fundamental and quantitative research to identify companies with desirable characteristics such as attractive valuations, high earnings quality, disciplined capital deployment, and low balance sheet risk. The team conducts first-hand research to assess a company's competitive position, management capabilities, and earnings power. After selecting roughly 60 stocks from around the world, we use proprietary analytical tools in conjunction with our best judgment to weight the holdings in a way designed to achieve lower volatility than the index. This involves considering the characteristics of each stock that have historically given a good indication of how volatile its returns are likely to be (such as the company's sector and size, or its exposure to global interest rates, currency, and oil prices).

Q: How are you positioned now?

Currently, the portfolio's holdings reflect four key themes:

Overweight China. Although growth rates in China are below prior peaks and current valuations reflect investor skepticism, we believe the world's second-largest economy still offers some compelling opportunities. Our exposure to China represents 8% of the portfolio's equities (compared to 2% for the index), including a leading telephone company (China Telecom) and one of the country's largest oil producers (Sinopec). In addition, the portfolio has indirect exposure to China's growth through companies such as mining firms BHP Billiton and

Freeport McMoRan, and restaurant chain Yum! Brands (the owner of KFC, Taco Bell, and Pizza Hut).

Overweight utilities. We are finding attractive opportunities in utility companies in the U.S., Europe, and Asia. Among our holdings are less-regulated companies that could benefit from higher power prices over time, such as Chicago-based Exelon. We have 7% of the portfolio's equities invested in the sector, compared to 4% for the benchmark.

Overweight gold. We are allocating 5% of the portfolio to gold-related companies, including Barrick Gold and Newmont Mining, whose high-quality reserves make them likely to benefit from a period of monetary expansion.

Underweight financials. Most financial companies today do not have the characteristics the portfolio seeks. Our research has led us to only four well-positioned banks (U.K.-based Barclays, China Construction Bank, Sweden-based Nordea, and Japan-based Sumitomo Mitsui), as well as several insurance companies. As a result, the financial sector makes up only 16% of the Core portfolio's equities compared to 19% for the index. Given our cautious stance on the sector, we are willing to potentially lag market indexes if riskier financial stocks lead a strong market rebound.

Geographically, 45% of the portfolio's equities are invested in the U.S. and 55% are in other markets (Exhibit 8). We have well-diversified exposure to companies whose share prices don't fully reflect the strengths we see, whether because their assets are undervalued, markets haven't recognized a business turnaround or cyclical recovery, investors are excessively pessimistic, or the companies' franchises are underappreciated.

The Core portfolio's equity holdings have a price-to-earnings ratio of 10.7x, dividend yield of 3.5%, and projected earnings growth rate of 7.2%.

Exhibit 8: Geographical Exposure

	Portfolio	S&P Global LargeCap Index
U.S.	45.5%	45.5%
Developed Europe	29.6	23.0
Japan	9.3	8.0
Emerging Markets	8.7	13.0
Other Developed Markets	7.0	10.5
Number of Holdings	58	1,281

Data and holdings reflect the Large Cap Core Common Trust Fund, formerly named U.S. Large Cap Common Trust Fund, as of December 31, 2011. Country weights exclude cash of 59.5%. Source: FactSet, Standard & Poor's

As of year-end, approximately 40% of Large Cap Core's overall assets were invested in equities, with the remaining assets held as a cash reserve given the heightened level of uncertainties in the global landscape. Early in 2012, we began shifting our asset allocation and expect the portfolio will be fully invested by the end of the first quarter.

Q: What developments are you monitoring closely for 2012?

Many indicators today point to a slowing global economy — Asian manufacturing is down, corporate profits are peaking, and consumers are concerned about ongoing fiscal problems in Europe and the U.S. We will be watching for a shift in these and other leading indicators. Though the U.S. and global economy are still growing, we would like to see greater stabilization or an acceleration in the growth rate. We'll also be monitoring whether companies find a way to revive earnings in 2012 or whether prices come down enough to make valuations more attractive.

We are closely analyzing a series of questions whose answers could alter the investment landscape and create new opportunities. For instance, what is the most likely outcome for upcoming elections in Russia, and how will the new government's policies affect natural gas companies? Will more companies adopt technology allowing customers to pay for items using a smart phone? If so, which companies are most likely to benefit? What impact might a new U.S. president have on healthcare policy and the broader medical industry? Which firms stand to benefit most from the rapidly growing Indonesian economy?

Large Cap Strategies

Newly hired Michael Crawford leads the team, assisted by Associate Portfolio Managers Hank Hagey and Jeff Rutledge; Sub-advisers: Oldfield and Sands

Large Cap Strategies launched on November 21, 2011.

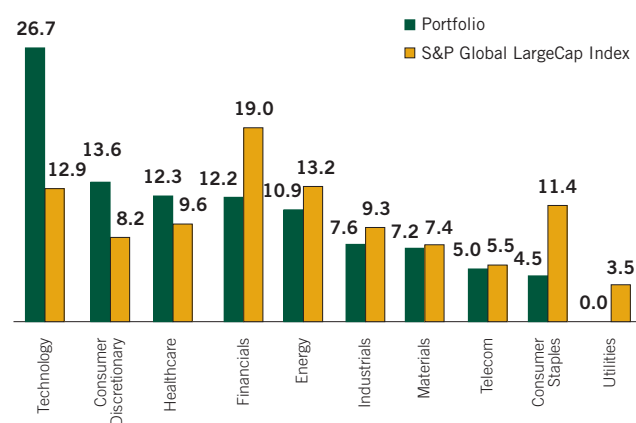
Q: What is the Fund's overall investment philosophy?

Large Cap Strategies is a global portfolio of large cap stocks designed to outperform the S&P Global LargeCap Index over full market cycles with similar volatility. A team of Bessemer professionals oversees the portfolio, which combines three complementary investment strategies: Bessemer emphasizes high-quality companies with strong returns on capital whose strengths are not fully reflected in their prevailing stock prices, Oldfield Partners LLP focuses on companies selling at significantly discounted valuations, and Sands Capital Management LLC focuses on companies with superior prospects for rapid growth.

Q: How is the Fund positioned now?

All three managers select stocks based on company fundamentals. The Strategies portfolio reflects the combined positions, leading to certain overall sector tilts (Exhibit 9).

Exhibit 9: Sector Weightings (%)



Data and holdings reflect the Old Westbury Large Cap Strategies Fund, formerly named Old Westbury Non-U.S. Large Cap Fund, as of December 31, 2011.

Weightings exclude cash/currency of 2.1%.

Source: FactSet, Standard & Poor's, Bessemer Investment Management LLC, a member of the Bessemer Trust group of companies

Overweight technology. Strategies owns a diverse set of companies in this sector. Internet search company Google and telecommunications company Qualcomm appear to have rapidly growing franchises and Finnish-based mobile phone company Nokia offers significant upside potential through what we believe to be unrecognized asset value outside its handset franchise.

Overweight consumer discretionary. In this sector, Strategies owns Amazon, which is building a dominant position in web-based retail; Wal-Mart de Mexico, the ubiquitous retailer's successful Mexican operations; and U.K.-based Pearson, whose significant investments in digital distribution technologies underpin its strong position in the U.S. educational materials market. In addition, Strategies owns several companies in the automotive industry that appear to be trading at significant discounts to asset value.

Underweight financials. Companies in this sector currently face substantial challenges at a time when many of them are still rebuilding their capital bases. Compared to the benchmark, the Fund is about a third underweight. In particular, there is little exposure to the banks in continental Europe. Instead, Strategies has exposure to strong franchises such as multinational credit card company Visa and London-based Standard Chartered Bank, which primarily operates in Africa, Asia, and the Middle East.

Underweight utilities. For a portfolio looking to achieve robust returns in appreciating markets, this sector offers few attractive opportunities at this time. Some companies have limited returns because of regulation and are highly leveraged.

At the individual manager level, the composition and characteristics of the three strategies are strikingly different because their approaches are so diverse.

As a deep value manager, Oldfield's top holdings include Japanese telecommunications provider NTT, Japanese commercial bank Mitsubishi UFJ, and U.S.-based healthcare products company Johnson & Johnson. The Oldfield component trades at a price-to-earnings ratio of just 8.9x and offers a dividend yield of 3.6%. The projected earnings growth rate is a respectable 8.2%.

Bessemer is in the middle of the spectrum, focusing on companies with durable competitive advantages and strong returns on capital. Its holdings include Swiss pharmaceutical company Roche, U.K.-based oil and gas company BG Group, and the dominant Japanese tobacco company Japan Tobacco. The Bessemer component has a price-to-earnings ratio of 11.7x, dividend yield of 1.8%, and projected earnings growth rate of 11.4%.

At the other end of the spectrum is Sands. Befitting an aggressive earnings growth manager, Sands' holdings include Visa, Google, and South Africa-based media company Naspers. The price-to-earnings ratio of the Sands component is much higher and the dividend yield is much lower than Oldfield's portfolio, but that's understandable given the 17.1% projected average earnings growth rate of the companies.

Geographically, about half of Large Cap Strategies is invested outside the U.S.

Q: What developments are being monitored closely for 2012?

In addition to assessing company fundamentals and valuations, the Strategies team will monitor investor sentiment as global developments unfold. Periods of optimism or pessimism can provide opportunities for adding or reducing positions.

For example, changing expectations for economic growth in the U.S. and abroad will be an important factor. If pessimism grows, a potential market pull-back could make valuations for strong companies more attractive. If growth appears to be picking up, certain companies will be more likely to benefit than others. Among the key indicators to monitor will be commercial and residential real estate markets in the U.S. and construction in China.

Corporate earnings will be another area to watch, particularly whether companies are able to sustain their recent high margins.

Michael Crawford's Background

Michael has successfully managed portfolios for 15 years, including overseeing Bessemer's European equities from 2005 to 2007. Four years ago, he accepted a significant opportunity at Credit Suisse Asset Management to build and manage equity portfolios. Following several corporate restructurings, Michael is looking forward to returning to the stability and collaborative culture of Bessemer.

Michael earned an M.B.A. from Cranfield School of Management, one of the top-rated programs in Europe, and bachelor's degrees in chemistry and law from the University of Exeter. He initially worked as an accountant for KPMG Peat Marwick before beginning his portfolio management career with Deutsche Asset Management.

Global Small & Mid Cap

Portfolio Manager: John B. Hall; Sub-advisers: Champlain, Dimensional, and Mondrian

Performance Analysis

Annualized Periods Ending December 31, 2011

	Returns			5-Year Volatility
	1 Year	3 Years	5 Years	
Global Small & Mid Cap Fund	(7.8)%	14.9%	4.1%	17.0%
Global Small & Mid Cap Index	(10.3)	17.7	(0.9)	23.8

The Fund's inception date was April 5, 2005. The Global Small & Mid Cap Index represents the S&P Global MidSmallCap Index after December 31, 2010 and the MSCI World Small Cap Index before January 1, 2011. 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 expense reimbursements and reinvestments of distributions, if any. Without waivers/reimbursements, performance would be lower. Volatility is measured by annualized standard deviation of monthly returns. This figure is most meaningful over multiyear periods.

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

Global Small & Mid Cap looks to capture the upside potential of small- and mid-sized companies around the world. The team collaborates with external managers with complementary investment approaches to create a portfolio that is diversified across geography, sector, and company size.

Q: What helped and hurt performance in 2011?

Small and mid cap stocks fell during the year as investors indiscriminately fled most riskier asset classes. In this difficult environment, Global Small & Mid Cap was not immune to losses, but it held up better than its benchmark.

Favorable stock selection. Champlain Investment Partners LLC's investments in U.S. small and mid cap stocks delivered slightly positive returns. Their overweight and stock selection in the consumer staples sector, where they found stable businesses and underappreciated growth opportunities, boosted performance.

The mid cap component managed by Bessemer Investment Management LLC also benefited from strong security selection, particularly in the consumer discretionary sector. Low-cost retailer Dollar Tree and automotive parts and accessories retailer Advance Auto Parts rose during the year.

Beneficial overweight of the U.S. Over 50% of the Fund is invested in the U.S., which performed significantly better than markets abroad.

Weakness in European holdings. Dimensional Fund Advisors' holdings in developed Europe, particularly in the consumer discretionary and healthcare sectors, detracted from the Fund's performance. In addition, two European companies held in the Bessemer-managed component pulled down performance. Metso, a Finnish supplier of paper, pulp, and mining equipment, came under pressure when declining commodity prices threatened to hurt mining companies' spending plans. Vallourec, a French company specializing in seamless steel tubes, faced increased competition and rising costs during the year.

Q: Were there any notable changes in 2011?

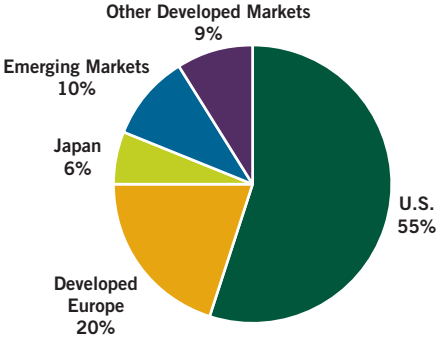
The Fund added a new sub-adviser to continue to broaden the exposure to non-U.S. small cap stocks, where the Fund team sees interesting opportunities today. Mondrian Investment Partners Limited, a London-based firm with \$70 billion under management, manages small cap stocks in developed and emerging markets. The firm's disciplined approach to value-oriented investing is proving highly complementary to those of the Fund's other managers.

In January 2011, the Fund’s benchmark changed from the Morgan Stanley Capital International World Small Cap Index to the S&P Global MidSmallCap Index. The new benchmark matches the mandate of the Fund better in that it includes both small and mid cap stocks in developed and emerging markets, whereas the old benchmark included just small cap stocks in developed markets only.

Q: How are you positioned now?

The Fund has exposure to 46 countries in both developed and emerging markets (Exhibit 10). At this time, the Fund is overweight technology companies based on strong growth potential and attractive valuations and healthcare companies with stable businesses. Conversely, the Fund is underweight financial companies, where the business risks appear unusually high, and utility companies, which have recently been popular among investors seeking yield potential.

Exhibit 10: Geographical Exposure



Data reflects the Old Westbury Global Small & Mid Cap Fund as of December 31, 2011. Source: FactSet, Bessemer Investment Management LLC, a member of the Bessemer Trust group of companies

Q: What developments are being monitored closely in 2012?

Beyond the broad global issues, such as the debt crisis in Europe, the Fund team is monitoring the recent trends in small and mid cap stocks. We will be looking for a shift in investor sentiment that could potentially propel small and mid cap stocks ahead if a market rally is led by riskier investments.

Corporate earnings are at record highs. Many companies will likely maintain strong profits in the period ahead, but some forecasts may prove overly optimistic. Signs of a more challenging environment have begun to emerge, as evidenced by more companies reporting earnings shortfalls. While the Fund team is finding attractively valued companies with strong potential earnings growth, we are carefully assessing the sustainability of recent high margins.

Global Opportunities

Portfolio Manager: Gregory M. Lester, assisted by a team of Bessemer professionals

Sub-advisers: BlackRock, Franklin Advisers, and Shenkman

Performance Analysis

Annualized Periods Ending December 31, 2011

	Returns		3-Year Volatility
	1 Year	3 Years	
Global Opportunities Fund	(7.1)%	9.4%	10.5%
S&P Global LargeMidCap Index	(7.1)	12.8	21.0

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. Volatility is measured by annualized standard deviation of monthly returns. This figure is most meaningful over multiyear periods.

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

Global Opportunities is a 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 internal and external managers.

Q: What helped and hurt performance in 2011?

Solid results from credit. The Fund's credit investments performed particularly well during a year in which volatility was high and equities struggled. High-yield bonds managed by sub-adviser Shenkman Capital Management Inc. were up 5.1%. The roughly 7% yield on these corporate bonds — rated in the B to BB range — acted as a cushion during the year, more than offsetting a moderate drop in these securities' value. Moreover, a stabilizing housing market with homeowner defaults no worse than expected helped the Fund's position in mortgage-backed securities, managed by sub-adviser BlackRock Financial Management, Inc. This segment was up 0.6% in 2011. Finally, the Fund's exposure to emerging-market bonds through sub-adviser Franklin Advisers, Inc. helped relative performance. Though the currency component of these positions — including Malaysian, Indonesian, and South Korean bonds — was negative, the coupons received brought overall returns to roughly breakeven.

Volatility marred variance swaps. The biggest detractor from results was the Fund's position in derivative instruments called variance swaps, whose returns are tied to daily stock market moves and future expectations of stock market volatility. At the beginning of 2011, the team invested in these swaps to gain from a potential move down from unusually elevated volatility levels at the time. But in August, the euro zone fell into financial crisis, the U.S. government's credit rating was downgraded, and economic growth slowed — which caused both realized and implied equity volatility to soar further to all-time highs and hurt the Fund's returns.

Convertible bonds lagged. The Fund's convertible bond holdings struggled for two key reasons. First, convertible bonds are most often issued by small cap companies, and small cap stocks generally underperformed the broader equity market in 2011. Second, the Fund's European convertible bonds such as British travel agency TUI Travel PLC and broadcaster Central European Media were hit particularly hard because of their association with the reeling euro zone.

Equities fell in line with benchmarks. Overall, the Fund's equity holdings performed roughly in line with global stocks. The strongest results were from the portfolio segment the team launched in April, which is designed to limit volatility through a quantitative screening and disciplined re-weighting process.

Q: Were there any notable changes in 2011?

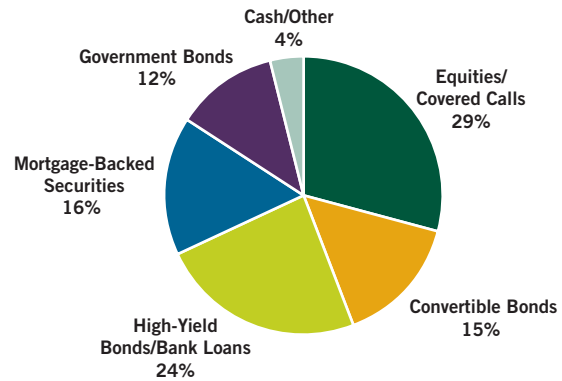
The most significant change was the team’s decision to build a position in covered calls, an options strategy that involves buying a stock while simultaneously selling someone the right to buy it from you at a certain price (a “call option”). Generally speaking, the greater the market’s volatility, the more attractive this strategy becomes. That’s because investors are willing to pay a higher premium to buy this call from you as uncertainty heightens, which gives you more protection if the stock falls and more participation in gains if it rises. The team initiated this strategy in March 2011, when a market downturn drove premiums to unusual highs. While this strategy will perform best if global equities struggle or rise moderately (as we expect), it will also limit the Fund’s ability to participate if stocks surge and will protect only moderately if stocks plummet. As of year-end, 7% of the Fund was invested in covered calls.

In addition, the Global Opportunities team added to its position in high-yield bonds, whose yields became increasingly attractive versus those of U.S. Treasury bonds beginning in August. To accomplish this, the team trimmed exposure to convertible bonds and variance swaps.

Q: How is the Fund positioned now?

The team has positioned Global Opportunities to benefit from a choppy market in 2012, characterized by a lackluster economic environment and lingering uncertainty. As such, credit remains a central theme, typically offering more protection than equities in difficult environments while still offering upside potential (Exhibit 11). The Fund has significant positions in mortgage-backed securities, high-yield bonds, and emerging-market bonds, along with higher-quality convertible bonds than in 2011. The Fund’s covered calls also offer upside participation with lower risk than equities.

Exhibit 11: Asset Allocation



Data reflects the Old Westbury Global Opportunities Fund as of December 31, 2011. Data for mortgage-backed securities and high-yield bonds/bank loans is as of November 30, 2011. Source: BlackRock Financial Management, Franklin Advisers, Inc., Shenkman Capital Management, Inc., Standard & Poor’s

Q: What developments are being monitored closely for 2012?

Many overleveraged European banks, eager to reduce debt and improve their capital ratios, have indiscriminately sold assets such as stocks or convertible bonds. Though this distressed selling may continue, at some point it will provide an opportunity for investors looking for companies with strong underlying businesses that have been overlooked.

At the same time, even though many global policy-makers have recently shown greater willingness to spur lending and other investments through lower interest rates, it is unclear whether they will be successful. Particularly telling will be the health of credit markets worldwide. We will therefore be monitoring growth across the globe, particularly in Europe, Japan, and several emerging markets, where economic activity is anticipated to slow.

Real Return

Portfolio Manager: W. Preston Stahl, Jr.

Performance Analysis

Annualized Periods Ending December 31, 2011

	Returns			
	1 Year	3 Years	5 Years	5-Year Volatility
Real Return Fund	(12.8)%	8.3%	0.2%	20.9%
Dow Jones-UBS Commodity Index*	(13.3)	6.4	(2.1)	21.6
Barclays Capital U.S. TIPS Index	13.6	10.4	8.0	7.4

*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. Volatility is measured by annualized standard deviation of monthly returns. This figure is most meaningful over multiyear periods.

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 agricultural products, precious metals, and energy to real estate and inflation-linked bonds.

Q: What helped and hurt performance in 2011?

In a very challenging year for commodities — driven by fears of a deteriorating global economy — Real Return posted significant losses. Nonetheless, several factors caused the Fund to fall less than its commodity benchmark.

Energy positioning. The Fund's relative performance benefited from the team's decision to underweight natural gas, which performed very poorly in 2011 because of a glut in supply. Moreover, Real Return's forward and futures contracts in thermal coal contributed to results, thanks to supply constraints and greater industrial demand for the fuel (used primarily for heating and power generation) from emerging markets such as China.

Difficulty in industrials, agriculture. At the beginning of the year, the Fund was positioned to benefit from greater industrial growth worldwide, with investments in materials such as steel and lumber. Yet several holdings held back performance in 2011: Steel producers Nucor and Steel Dynamics faltered as demand for steel from the construction and transportation sectors weakened, and Chinese lumber company Sino-Forest faced allegations of accounting fraud in June.

In agriculture, better-than-expected sugar cane harvests in India, Russia, and Thailand sent sugar prices downward and hurt Real Return's holdings in the sweet commodity. Finally, greater risk aversion from investors, along with lower demand for animal feed, brought grain prices lower. This caused the Fund's positions in fertilizer companies Mosaic and Agrium to lag.

Raising cash levels. In late summer, the team raised the Fund's cash levels from roughly 30% to 60%, anticipating a more pessimistic view of Europe's fiscal outlook, a weakening global economy, and diminishing demand for commodities. Though the Fund experienced losses when investors sold positions in a wide range of commodities shortly thereafter, the Fund's elevated cash levels helped mitigate the downside.

Q: Were there any notable changes in 2011?

The Fund's most significant change was altering its level of defensiveness throughout the year. After doubling cash holdings in the summer, the team began to reinvest that cash beginning in late September. In particular, the Fund bolstered its weightings to agriculture, energy, and precious metals. By year-end, Real Return's cash level was down to 14%.

Q: How is the Fund positioned now?

The following three areas are of particular interest:

Energy. The Fund is invested in a wide range of energy-related companies. Some examples include oilfield service companies Schlumberger, Transocean, and

Baker Hughes, diversified energy giants Total S.A. and ConocoPhillips, and Russian natural gas company Gazprom. Many of these companies' share prices have fallen despite the fact that crude remains relatively highly priced — and profitable. With Brent crude prices at \$107 per barrel as of year-end, many of these companies would still enjoy healthy margins if crude were to fall 20%. That scenario is believed to be unlikely, given continued demand for oil in fast-growing nations such as China, Russia, Brazil, and the Middle East generally. Gazprom, meanwhile, stands to benefit from Europe's greater reliance on foreign natural gas and China's growing appetite for energy.

Soybeans. Real Return has exposure to soybeans for two key reasons: First, with pork prices high in China, hog farmers are looking to increase the country's 400 million-plus population of hogs — and doing so requires more soybeans with which to feed them. Second, increasing numbers of emerging-market consumers are adopting vegetable oil, particularly soybean oil, as a healthier alternative for cooking than animal fat.

Gold and silver. The Fund has a 24% position in precious metals, particularly gold and silver. The team believes that, as government debt issues create concerns over weakening paper currencies, gold and silver are likely to become increasingly attractive. Moreover, gold stands to benefit from greater uncertainty in the euro zone and strong demand from well-capitalized creditor nations.

Exhibit 12 highlights our overall positioning at year-end.

Q: What developments are being closely monitored for 2012?

As always, China's 1.3 billion-person economy will play a critical role in global commodity markets. In particular, the Real Return team will be closely attuned to the government's ability to invigorate the Chinese economy, which has seen exports slow as a result of uncertainty in Europe. In November and

December, Beijing took a first step by prompting Chinese banks to extend more loans to small- and mid-sized businesses. Many of these companies are likely to use the capital to invest in their businesses, which would entail purchasing raw materials. Yet they're only likely to do so after they become more certain that worldwide demand will be sufficient to clear their inventories.

Exhibit 12: Sector Weightings

Sector Weightings	Percent of Portfolio	
	Neutral	Current
Agricultural Products	10.0%	30.9%
Industrial Materials	10.0	5.7
Precious Metals	12.5	24.3
Energy	15.0	25.0
Infrastructure	7.5	0.1
Real Estate	10.0	0.0
Bonds/Cash	35.0	14.1

Data reflects the Old Westbury Real Return Fund as of December 31, 2011. "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, 2011, and is subject to change without notice. Source: Bessemer Investment Management LLC, a member of the Bessemer Trust group of companies

Another key indicator to watch will be how much stimulus China will allocate to infrastructure spending — such as power generation and railways. Because China consumes roughly half of all industrial metals worldwide, this decision will have ramifications for copper, nickel, steel, and zinc markets. Of these, the greatest bellwether will be copper, which the team will be monitoring closely in 2012.

Finally, European policy will have consequences for commodity markets, particularly if governments continue to constrict spending. The greater the austerity measures, the slower the economy is likely to grow and the less money will be available for governments, businesses, and individuals to spend and invest in raw materials. In 2012, much will depend on how euro-zone policymakers are able to balance competing demands for monetary laxity and fiscal restraint.

Strategic Currency

Managed by Bessemer's Currency Team: Gregory M. Lester (Global Opportunities Portfolio Manager), David W. Rossmiller (Head of Fixed Income), Edward N. W. Aw (Head of Quantitative Strategies), Peter J. Langas (Director of Investment Strategies), and Marc D. Stern (Chief Investment Officer)

Performance Analysis

	2011	Volatility
Strategic Currency	(3.0)%	N/A

The portfolio's inception date was December 15, 2010. Volatility is measured by annualized standard deviation of monthly returns. This figure is most meaningful over multiyear periods. The performance is presented before fees and expenses.

Q: What is your overall investment philosophy?

Strategic Currency is an actively managed portfolio of select currencies designed to deliver positive returns against the U.S. dollar over time while providing currency diversification. Our team emphasizes quantitative analytics and experienced judgment to assess each major country's budget condition, debt levels, valuation, interest rates, growth potential, and current account.

Q: What helped and hurt performance in 2011?

Of the world's 31 largest currencies, the dollar finished the year as the fourth strongest, behind only the Japanese yen, Chinese yuan, and Hong Kong dollar. In particular, emerging-market currencies were weak, down over 7% for the year versus the U.S. dollar. Concerned about the tumult in Europe and a cooling global economy, investors sought currencies generally perceived as safe havens, so the dollar benefited.

In a difficult environment, three of the portfolio's four currencies performed better than most other currencies.

Hong Kong dollar. The Hong Kong dollar, which is pegged in a tight range to the U.S. dollar, finished the year roughly flat. We believe Hong Kong will eventually change its currency policy, which has suppressed the value of its currency. In the summer of 2011, the territory's inflation rose to the fastest rate in 15 years and wages jumped 7%. By not removing the currency's peg to the U.S. dollar, policymakers lack a crucial tool to rein in prices.

Though we will not see significant upside for this position while Hong Kong maintains its policy, we believe the prospects for a revaluation are significant enough to make the investment attractive.

Norwegian krone. The krone finished 2011 as the world's thirteenth best-performing currency, down 2.6% for the year versus the U.S. dollar. We initially invested in the krone because of Norway's trade and budget surpluses, low government debt, and strong energy resources. Though Norway's growth prospects fell slightly in the third quarter as pressures in the neighboring euro zone intensified, these positive attributes still remain. Additionally, its annual GDP forecast (roughly 3%) still outpaces those of most developed countries thanks to strong domestic demand and low unemployment.

Singapore dollar. Singapore's currency fell 1% compared to the U.S. dollar in 2011 chiefly because of investors' flight from risk in the third quarter, which hurt nearly all Asian currencies. However, Singapore still boasts several strong characteristics: trade and budget surpluses, prudent fiscal policy, and a free-market economy thriving on successful electronics and chemical industries. Moreover, while the country's inflation remains high, policymakers have historically used currency policy as a chief means of restraining it.

Disappointing results from the rand. We initially invested in the South African rand based on the country's generous interest rates, high correlation to commodities (particularly gold), strong underlying

economy, and low government debt, all of which we expected would boost its value relative to the U.S. dollar. Yet the rand lost roughly 15% against the dollar in 2011. One of the primary reasons for the decline was that global portfolio managers — whose investments in South African bonds, stocks, and resources helped the country finance a current account deficit — grew more reluctant to invest in emerging-market currencies as the European financial crisis intensified.

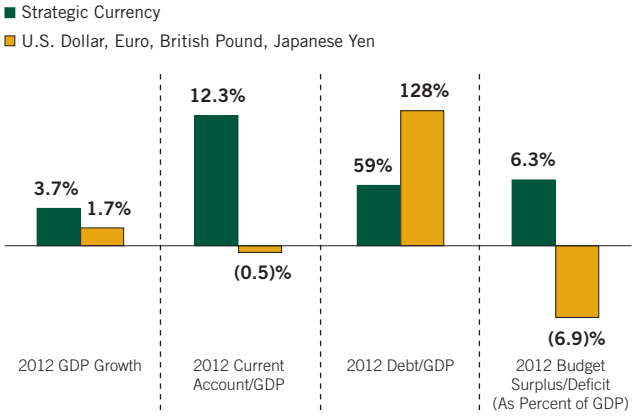
Q: Were there any notable changes in 2011?

We decided to sell our position in the South African rand in December. We saw little likelihood of a rebound because the country lacked alternative sources of foreign direct investment such as the ability to attract new foreign companies.

Q: How is the portfolio positioned now?

The U.S. continues to face budget and trade deficits, mounting debt, and political discord. For that reason, we will remain focused on currencies whose economies have more promising fundamentals than the U.S. — in particular, better growth opportunities and sounder fiscal policies. At this time, we are maintaining our positions in the Hong Kong dollar, Singapore dollar, and Norwegian krone (Exhibit 13).

Exhibit 13: Fundamentals



As of December 31, 2011. Data for Strategic Currency reflects equal-weighted statistics of the portfolio components (Norwegian krone, Singapore dollar, Hong Kong dollar, and cash), while data for the U.S. dollar, euro, British pound, and Japanese yen reflects equal-weighted statistics of those four countries/region.
Source: International Monetary Fund

In addition, in early 2012 we initiated a position in the Mexican peso based on our view that the following factors will cause the currency — which fell almost 12% in 2011 — to appreciate against the U.S. dollar over the long term:

- **Low debt and sound fiscal policy.** Mexico’s debt-to-GDP ratio of 40% is well below those of developed markets, and sound fiscal policy has allowed the country to borrow at very attractive rates.
- **Attractive interest rates.** With nominal interest rates 1% above inflation, Mexico has one of the highest real interest rates in the world.
- **Solid economic growth.** Mexico’s fourth-quarter GDP growth was 4.5%, well ahead of developed markets’, and the country’s low household debt levels could allow for strong domestically driven growth.

Though Mexico relies heavily on demand from the U.S. economy (80% of exports), we believe this is an overall positive; it means the country is less exposed to the more-distressed Europe. Furthermore, despite fears of drug-related violence making the country less attractive for businesses, foreign direct investment and portfolio flows to Mexico remain strong thanks to the country’s underlying economic strengths.

Q: What developments are you monitoring closely for 2012?

Investors’ attitude toward risk will continue to affect the performance of the dollar. If we continue to see an environment where investors avoid more opportunistic investments such as emerging-market stocks and bonds, the dollar will likely continue to be strong. Developments in the euro zone will be particularly important. Over time, though, we believe the U.S. dollar is likely to decline against better-positioned currencies.

Hedge Funds

Director of Hedge Funds: Daphne L. Richards

Q: What is your overall investment philosophy?

Our niche global fund-of-funds program seeks 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. We use rigorous research to identify and monitor managers who meet our strict criteria, build concentrated portfolios, and proactively manage a diversified strategy allocation.

Q: How did Bessemer hedge funds of funds perform in 2011?

Due to regulatory requirements, we can provide detailed performance information only to investors in our hedge fund program. Broadly speaking, it was a difficult year. In fact, the third quarter was the fourth worst in the history of the hedge fund industry. Overall, our results were disappointing. However, we remain convinced that our approach will achieve our return and volatility objectives over the long term.

Q: What helped and hurt performance?

The two most significant factors affecting manager returns this year were 1) surging volatility and rising correlations across asset classes and securities (which posed challenges for our managers, most of whom tend to focus on fundamental factors) and 2) investors' rapid rotations in and out of sectors and regions throughout the year.

The biggest detractors were a few core event-driven managers that were positioned for continued economic growth. Their significant net long positions in cyclical companies — particularly industrials and natural resources companies — were hurt as fears of recession built in the second half of the year.

In addition, some of our managers had long exposure to large cap European and U.S. financial companies based on their fundamental research that suggested

the market was undervaluing the companies' long-term profitability. As the euro-zone crisis escalated during the year, risk-averse investors fled these holdings, causing prices to plummet.

Positive results from the following areas somewhat offset the detractors that led to overall negative performance of the program:

Short exposure and portfolio hedges. We benefited from managers who maintained more hedged positioning in both the absolute return and hedged equity strategies. Among the strategies that generated particularly favorable results were shorts of Chinese equities, U.S. financials, and European sovereign credits, as well as relative value trades and yield curve trades.

Emerging markets. Managers investing in well-positioned global companies with exposure to emerging markets were among the top performers this year. In particular, positions in industrial companies in India and Australia that benefited from emerging-market growth did well.

Value creation strategies. Several of our value-oriented managers saw gains during the year. For example, one of our managers benefited from several positions in healthcare and consumer companies, where they sit on the boards and influence strategic initiatives. Another manager profited from its board representation on companies that launched initiatives such as new stores in emerging markets, new products, and stock repurchase programs.

Q: Were there any notable changes in 2011?

Overall we are pleased with the quality, stability, and diversity of our manager lineup. Nevertheless, in light of recent declines, our ongoing review of manager and portfolio exposures has led to changes in some cases, but not in other cases where our convictions remain high. In 2011, we terminated

several managers for underperformance, added two new funds, and trimmed and rebalanced portfolios to our desired asset allocation. During the year, we attended over 400 manager meetings, nearly half of them with new managers, including a strong pipeline of new start-ups and emerging managers. We see a strong pipeline of prospective investments and anticipate several new additions early in 2012.

Q: How are you positioned now?

Consistent with an asset allocation shift that began in 2010, we continue to emphasize managers in the absolute return area who rely on less directional strategies, which tend to perform better in periods of heightened volatility, and who use little to no leverage. Compared to a year ago, we have doubled our allocation to this area, in relative value and arbitrage strategies, both debt and equity. Within distressed debt, we continue to increase our exposure to managers who employ a more tactical, trading-oriented style as well as closely monitor potential increased investment opportunities in distressed European investments. Within long-short equity, we remain focused on managers who have a proven ability to generate gains from shorting stocks, have shown flexibility managing their portfolio positioning, and employ tactical strategies as a way to manage their fundamental approach during volatile times.

Other areas where we are finding attractive opportunities include the following:

- Long-only value creation strategies through managers who work collaboratively and constructively from within company management and boards.
- Event-driven strategies, such as those linked to mergers and acquisitions and corporate restructurings.

Q: What developments are you monitoring closely for 2012?

A key factor to watch will be whether stresses continue to cause markets to move in the same direction. A decoupling of asset classes would bode well for investors who focus on fundamentals, as our managers tend to do. Overall, we anticipate that enough progress will be made in resolving the macro issues plaguing markets to help them gradually move toward normal, although periods of intense volatility will likely persist as investors react to developments as they unfold.

We are carefully watching developments in the push toward greater regulatory oversight in the U.S. and Europe. Even though the majority of our managers have already registered with the Securities and Exchange Commission, we are monitoring the implications of ongoing regulatory changes on the industry and our managers specifically.

Alternative investments, including Bessemer hedge funds of funds, private equity funds of funds, and real estate funds of funds, are not suitable for all clients and are available only to qualified investors.

Private Equity

Director of Private Equity: Marc de Saint Phalle

Q: What is your overall investment philosophy?

Our private equity funds-of-funds program strives to achieve a rate of return in excess of those generated in public equity markets through exposure to venture capital-type investments and other private capital-type investments (e.g., leveraged buyouts, recapitalizations, restructurings, and later-stage growth equity investments). We use rigorous research to select and monitor managers and we employ a thoughtful diversification strategy.

Q: What were the general industry trends in 2011?

Investment activity across several areas of private equity increased meaningfully in 2011. As many funds approach the end of their investment periods, managers are feeling pressure to invest substantial amounts of uncalled capital. Stable debt markets and private equity investors' increasing appetite for yield and risk tolerance have also contributed to the rise in deal volume.

High-quality companies continue to attract lofty valuations in spite of the recent volatility in the broader equity markets. Today's high valuations may give existing private equity investors reason to trim their holdings, while further volatility could open up opportunities for new investors with fresh capital.

In 2011, investors in private equity benefited from greater liquidity as a result of a surge in realizations. The initial public offering (IPO) market was receptive in the first half of the year, but the positive momentum was not sustained in the second half. In fact, there were no IPOs in September, which hadn't happened in the prior 29 months. Apart from Groupon and Zynga, few other companies have recently come to the market. Exit activity via mergers and acquisitions remained steady for private equity-backed companies in

2011. The technology industry in particular has benefited from greater acquisition activity on the part of large corporations, many of which have large cash reserves and ready access to debt.

In recent quarters, the fundraising environment for private equity managers was mixed. On the one hand, successful managers were fundraising more quickly than before, and in many cases their funds were significantly oversubscribed. On the other hand, there were more funds chasing fewer dollars. Top-tier venture capital firms continue to attract an increasing portion of commitments, causing the industry to further consolidate.

Q: Which areas appear particularly interesting now?

We are finding attractive opportunities in developing markets that complement our long-term exposure to the developed economies. High-growth economies in Asia and Latin America are attracting tremendous amounts of capital, and we have been able to partner with several of the best managers in those regions.

In the U.S., we continue to focus on small- and middle-market buyouts. We also remain dedicated to venture capital, particularly in the technology and life sciences sectors. A number of major investable trends are present in the information technology sector, including e-commerce, mobile Internet, and cloud computing.

There are attractive new investment opportunities for our more recent private equity funds, whose underlying managers are still building their portfolios. These include corporate divestitures, as executives increasingly focus on their core operations; families seeking liquidity or partners to help them grow their businesses; distressed sellers or companies needing to restructure or recapitalize; and exciting new technologies seeking capital for the early and growth stages of their life cycles.

Q: What developments are you monitoring closely for 2012?

There is a startling juxtaposition of concerns around the world. In Europe, the economy is slowing, causing tremendous uncertainty and weighing on the performance of businesses. In Asia, economies are growing rapidly, raising the risk of overheating. Indeed, China is actively trying to slow its growth without squelching it, which would likely have significant ramifications for the rest of the world.

In the U.S., we will keep a close eye on the outcome of high-profile IPOs that will test the market's appetite and potentially pave the way for other public offerings. Although high-profile IPOs were successfully completed in 2011, such as LinkedIn, post-IPO trading has been mixed.

The loan markets have improved following the global financial crisis and large, high-quality companies are now able to secure pre-crisis levels of financing. Covenant-lite and other borrower-friendly terms that have not been seen since 2007 have reemerged in the U.S. and Europe for select companies. Financing for small- and middle-market transactions is more difficult to obtain, but the environment is slowly improving. We continue to favor operationally focused managers whose strategies are not dependent on leverage, but we are carefully watching the loan markets for signs of loosening in the middle market and potential overheating in the large market.

Despite these concerns, there are important forces that make us optimistic about the future of private equity. Stabilizing valuations, interest from cash-rich strategic acquirers, a shakeout of marginal players in the industry, and a better alignment of interest between fund management and fund investors are all positive characteristics of the private equity industry for 2012 and beyond.

Alternative investments, including Bessemer hedge funds of funds, private equity funds of funds, and real estate funds of funds, are not suitable for all clients and are available only to qualified investors. Regulations permit us to provide performance information only to investors in our private equity program.

Private Real Estate and Other Real Assets

Overseer: Marc de Saint Phalle; Director of Real Estate Private Equity: Margaret Waters

Q: What is your overall investment philosophy?

Our global funds-of-funds program is designed to deliver attractive risk-adjusted returns with both lower volatility and correlation to the broader equity market over time. Similar to our other programs, we adhere to a rigorous manager selection and monitoring process and aim for a diversified portfolio of managers pursuing a variety of opportunities that we find attractive, such as growth in developing markets and entities divesting non-core assets.

Q: What were the general industry trends in 2011?

In the developed economies, the gap between strong and weak real estate assets and overall markets continued to widen in 2011. Indeed, the U.S. remained the top destination for investment capital in the first half of 2011. Moreover, markets in the U.S. appeared to be stabilizing. Domestic real estate funds and traditional investors began to acquire assets as fundamentals, particularly in the central business districts, showed improvement, interest rates remained low, and valuations for all property sectors stabilized. A strong rebound in demand made investments in multifamily housing attractive. In addition, select U.S. cities, such as New York, San Francisco, and Seattle, saw growth in Class A office rent as construction remained low and tenant demand in the technology sector increased.

During early 2011, stronger commercial banks began to recognize losses to address their troubled real estate loan portfolios. By midyear, sovereign debt issues in Europe began to constrict credit availability in both Europe and the U.S., particularly for real estate. However, in the third quarter, activity began to increase once again as banks felt pressure from regulators, regulatory changes such as implementation of Basel III, and rating agencies to dispose of real estate debt and assets.

In the developing markets, China remained the overall leader in Asian investment activity. Its economic growth began to moderate in the second quarter as the global economy slowed and the government's efforts to tighten lending and curb home buying took effect. It appears China has averted a potential bubble in its residential real estate market.

Brazil's economy grew over 4% in 2011, but we expect it to slow considerably in 2012. Nevertheless, we remain optimistic about Brazil's long-term growth potential given its growing middle class, need to build out its infrastructure in advance of hosting the 2014 soccer World Cup and 2016 Olympic Games, and government support for housing targeting low-income groups. Investable real estate sectors in Brazil have expanded beyond residential development. They now include the evolving industrial and retail sectors, which give investors opportunities to tap into the growth of the middle class.

In other private real assets, the energy sector in the U.S. has offered compelling opportunities, driven by extraction advances relative to shale gas. The midstream gas services sector, which includes the building of the infrastructure necessary to transport and store natural gas, also remains attractive despite relatively low natural gas prices.

Q: Which areas appear particularly interesting now?

We continue to review a broad spectrum of real estate opportunities in the U.S., particularly strategies focused on low leverage and distressed assets in order to earn opportunistic returns.

Despite tempered expectations for 2012 GDP growth in the developing economies, we continue to examine these markets in search of attractive investment opportunities relating to the continued growth of the middle class.

In the other private real asset sectors, there are compelling opportunities in energy-related assets driven by distress in the generation of electricity, technological developments in shale drilling, and underdeveloped infrastructure to transport and store natural gas.

Q: What developments are you monitoring closely for 2012?

We are closely monitoring employment in the U.S. and other developed economies, which remained weak in 2011. Real estate, no matter where it is located, is highly dependent on job growth to fill office space and to provide the impetus for consumer confidence and spending.

We are also closely monitoring the events in Europe and following developments in financial regulatory reform both in Europe and the U.S. The rules of financial reform are slowly unfolding and will likely have a significant impact on the real estate and other real asset sectors.

Finally, we are monitoring events in the developing economies, particularly China. China's policies regarding its currency, inflation, and trade affect not only real estate sentiment within China, but also global trade and economic policy.

Alternative investments, including Bessemer hedge funds of funds, private equity funds of funds, and real estate funds of funds, are not suitable for all clients and are available only to qualified investors. Regulations permit us to provide performance information only to investors in our private real estate and other real assets program.

Fixed Income

Portfolio Manager: Harold S. Woolley

Performance Analysis

Annualized Periods Ending December 31, 2011

	Returns				10-Year Volatility
	1 Year	3 Years	5 Years	10 Years	
Fixed Income	5.2%	4.8%	6.9%	6.1%	3.5%
Barclays Capital Government/Credit Index	8.7	6.6	6.5	5.9	4.5

Data presented above represents the performance of Bessemer's Fixed Income Common Trust Fund before the deduction of fees and expenses. Volatility is measured by annualized standard deviation of monthly returns. This figure is most meaningful over multiyear periods.

Q: What is your overall investment philosophy?

Our focus is on high-quality securities with limited credit risk, including Treasury and government agency bonds as well as corporate issues. We believe a fixed income portfolio's role is to provide stability and diversification to a broader balanced portfolio.

Q: What helped and hurt performance in 2011?

At the beginning of the year, we positioned the portfolio to be protective against a potential rise in interest rates, since five-year Treasury bonds were then yielding a mere 2% — well below historical norms.

But during 2011, slowing economic activity and growing concern over the health of the global financial system drove investors to the safety of bonds and prompted the Federal Reserve to maintain its loose monetary policy. Interest rates fell across the board — even after Standard & Poor's downgraded the U.S. government's credit rating in August. Consequently, five-year Treasury bonds yielded an even lower 0.83% by the end of the year.

The greatest factor behind the portfolio's under-performance, therefore, was our decision to maintain a duration shorter than the index's (3.6 versus 5.9) during a period in which yields on U.S. Treasuries declined by 100 basis points on average. Moreover, because long-term bonds — those with maturities above 10 years — performed best, our portfolio lagged; its exposure to such bonds was less than 1%, versus around 20% for the index.

Our emphasis on higher-quality securities than the benchmark had a neutral effect on relative performance. As economic momentum from 2010 carried over into the first quarter of 2011, lower-quality credit outperformed. But soon thereafter, fiscal problems in Europe and the U.S. intensified and market volatility returned, favoring higher-quality bonds. As a result, our credit orientation led to performance roughly in line with the benchmark.

Q: Were there any notable changes in 2011?

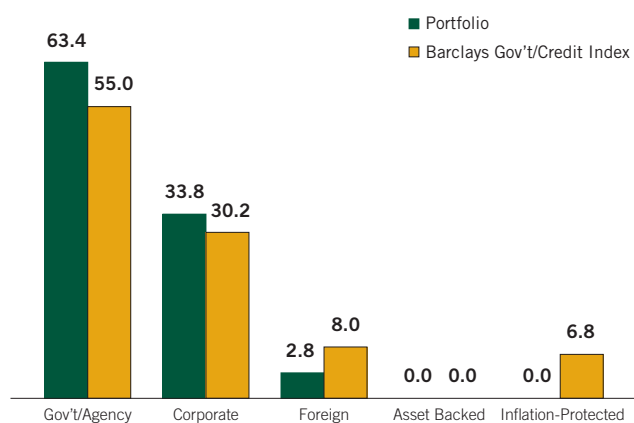
Though interest rates fell sharply beginning in August, we maintained our protective stance in terms of duration because we believed bond yields were too low to justify greater interest rate exposure. Throughout the year we increased our weighting to corporate and taxable municipal bonds to increase the portfolio's yield.

Q: How are you positioned now?

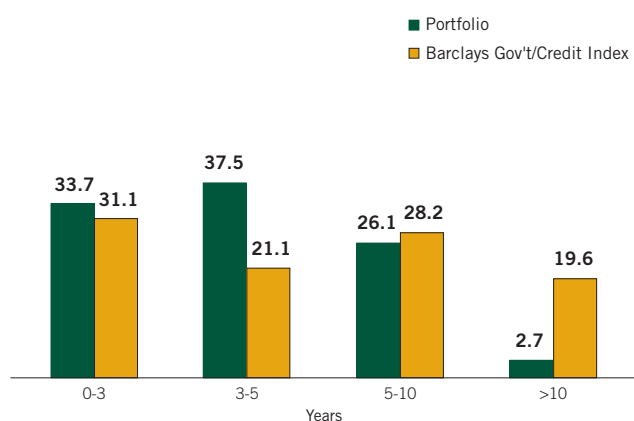
Though global economic uncertainty is not likely to go away in the near future, we believe that yields are unsustainably low. Taking on significant interest rate risk in today's environment offers little upside, particularly considering the protective role bonds should play in a portfolio. As such, we continue to emphasize high-quality securities, primarily Treasury and government agency bonds, in the intermediate portion of the yield curve (Exhibit 14).

Exhibit 14: Characteristics of Holdings

Portfolio Comparison (%)



Maturity Comparison (%)



Data reflects the Fixed Income Common Trust Fund as of December 31, 2011.

Source: Barclays Capital, Bloomberg, Standard & Poor's

Q: What developments are you monitoring closely for 2012?

Because bond prices are closely tied to confidence in the global financial system, we will be paying particular attention to the health of European banks, many of which have significant exposure to bonds from financially strapped countries like Italy, Spain, and Greece. If investors become concerned over these banks' balance sheets or the unity of the euro zone, it could prompt a broader crisis in the financial sector and cause a flight to Treasuries.

As always, U.S. monetary policy will play a critical role. In September, the Federal Reserve announced "Operation Twist," its program to sell short-term Treasuries to buy long-term ones in an effort to bring down long-term borrowing costs (for mortgages, for instance). Though we believe this move is unlikely to have a substantial impact, it has demonstrated the Fed's commitment to stimulating a flagging economy. We will be closely monitoring the central bank's decisions in 2012, particularly as it tries to kindle a sluggish economy with short-term interest rates already near zero.

Finally, inflation will be a key concern. Though we don't expect a period of quickly rising prices in the near future, even a moderate level of inflation would secure a loss in purchasing power for someone buying a 10-year Treasury bond at today's 1.86% yield. As such, we will be evaluating signs of U.S. economic growth — employment levels, commodity prices, and consumer sentiment — to evaluate the likelihood that interest rates move up from their record-low levels.

Municipal Bond

Portfolio Manager: Bruce A. Whiteford

Performance Analysis

Volatility	Annualized Returns				10-Year Volatility
	1 Year	3 Years	5 Years	10 Years	
Municipal Bond	7.5%	6.3%	5.2%	5.3%	4.3%
Municipal Bond Index	7.6	7.5	4.6	5.1	4.6

Data presented above represents the performance of Bessemer's Municipal Bond Common Trust Fund before the deduction of fees and expenses. The Municipal Bond Index represents the Bank of America Merrill Lynch 1-12 Year Municipal Bond Index after 12/31/2010 and the Barclays Capital Municipal Bond Index before 1/1/2011. Volatility is measured by annualized standard deviation of monthly returns. This figure is most meaningful over multiyear periods.

Q: What is your overall investment philosophy?

We take a value-oriented approach to municipal investing, applying our own independent research to find bonds with strong credit characteristics. In particular, we target general obligation and essential service issues that finance vital projects such as repairing water and sewer systems or supporting school districts. We then determine and negotiate the best security prices relative to credit strength.

Q: What helped and hurt performance in 2011?

Municipal bonds delivered strong results for the year, and our portfolio kept pace with the benchmark. The greatest contributor to our results was our strategy of putting greater emphasis on bonds with short (0-2 years) and long (5+) maturities than those with 3- to 5-year maturities, where returns underperformed in 2011. As the yield curve flattened, with longer rates falling more than shorter rates, the 5- to 10-year maturity range benefited not only from higher yield but also higher capital appreciation through the "yield curve roll" — when bonds rise in value as their time to maturity shortens.

Widening yield spreads between municipal bonds and U.S. Treasuries also helped our relative performance throughout the year. Spread widening resulted from skittish investors shunning riskier issuers in favor of safer borrowers, and this benefited higher-quality bonds over lower-quality ones. As a result, our higher-quality orientation than the index helped us protect during a declining market.

At different times during the year, our portfolio duration both hurt and helped our results. Going into 2011, we believed that historically low interest rates would likely lead to greater volatility for bonds. As a result, we reduced our sensitivity to interest rates by lowering the portfolio's target duration from roughly 8.5 to 4.5 and adopted a more appropriate benchmark. This positioning hurt us in early 2011: Interest rates moved sharply lower because of economic concerns in Europe and the U.S. Having less exposure to interest rates during this period hampered our relative returns. However, as the economic environment grew increasingly unstable throughout the year, we raised the portfolio's average duration above the index's, which helped us as rates continued to fall. This, in turn, offset earlier underperformance and made duration a neutral factor overall.

Q: Were there any notable changes in 2011?

At the beginning of the year, we adopted a new benchmark, the Bank of America Merrill Lynch 1-12 Year Municipal Bond Index, whose duration more closely reflected clients' long-term objectives and risk profile.

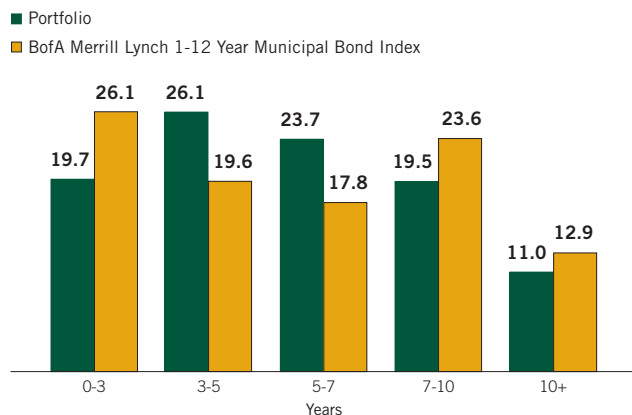
The most significant changes we made throughout the year involved duration (as stated above) — having a lower sensitivity to interest rates than the benchmark at the beginning of the year and then raising duration higher than the benchmark by August.

Q: How are you positioned now?

We continue to invest in a diversified mix of municipal securities, with a heavier concentration of maturities in the 0- to 2-year and over-5-year range, and a significant underweighting in bonds with 3-year maturities (Exhibit 15). We are also maintaining our focus on high-quality general obligation and essential service revenue bonds; at year-end, roughly 70% of the portfolio was invested in AAA- and AA-rated securities. Additionally, we don't hold any bonds that are subject to the Alternative Minimum Tax (AMT).

Exhibit 15: Maturity Comparison (%)

Percentage of Holdings



Data reflects the Municipal Bond Common Trust Fund as of December 31, 2011.
Source: Bank of America Merrill Lynch, Standard & Poor's

Q: What developments are you monitoring closely for 2012?

Although the Federal Reserve may keep today's short-term interest rates at their current historic lows for some time to help stimulate economic growth, the risk to bondholders once rates eventually rise is substantial. We will be closely monitoring economic developments to determine likely monetary policy in the period ahead.

Another important factor to watch will be the financial health of state and local governments. Many face ongoing challenges: weak economic growth, low tax receipts — particularly from

income and property taxes — and underfunded pension plans for government employees. Moreover, in an effort to trim spending, the federal government will be cutting back on aid to municipalities in 2012. Nevertheless, many states — New York, Rhode Island, Wisconsin, and Massachusetts among them — have made progress in restoring their financial health, including reducing headcount by more than 3% over the last three years. Going forward, it will be increasingly important to separate issuers that are disciplined and financially sound from those that are not.

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