

Broker's Directors Used Partnerships for Private Profits

By ALEX BERENSON

Board members and senior executives of Marsh & McLennan, the giant insurance broker that has been accused of cheating customers, put millions of dollars into a partnership that profited by buying companies from Marsh and investing in companies that work with Marsh.

Jeffrey W. Greenberg, the chairman and chief executive of Marsh, is among the largest individual investors in the partnership, which Marsh created in 1999 to invest in insurance and financial services companies. Mr. Greenberg's stake was worth almost \$2 million shortly after the fund was created, according to a filing with the Securities and Exchange Commission.

Executives in financial and insurance companies often invest alongside their companies in partnerships, and money from Marsh insiders and directors accounted for only a fraction of this \$1.4 billion fund.

Indeed, no one has offered any evidence that Marsh gave the private partnership, called Trident II, sweetheart deals to benefit Trident investors at the expense of Marsh's public shareholders.

Still, it is unusual for a company's directors, who represent the interests of shareholders, to invest in company-managed private funds alongside the executives they are supposed to supervise. Marsh repeatedly worried about the possibility of conflicts of interest in the fund, according to the partnership's incorporation papers and other public filings.

Experts on corporate governance have complained that Marsh's board, which has 6 insiders and 10 independent directors, is extremely weak and has not taken leadership as the insurance broker's legal problems worsen. Only two independent directors are employed by public companies: Lord Lang, a former British politician who is chairman of [Thistle Mining](#), and Stephen Hardis, chairman of [Axcelis Technologies](#).

Many questions about Trident remain unanswered. Marsh & McLennan, which invested \$300 million in the fund, has not disclosed which outside directors invested in it, or how much money they put up. A Marsh executive

said the company had done nothing wrong and worked hard to avoid conflicts of interest.

Marsh has also not disclosed the fund's returns or its costs. The executive, who spoke on the condition that he not be further identified, said yesterday that the fund had earned about 25 percent a year. Five independent Marsh directors did not return calls or e-mail messages seeking comment on Trident yesterday; a sixth declined to comment.

When Marsh created a follow-up partnership to Trident II last year, it decided to prevent independent directors from taking part, according to the Marsh executive.

During the late 1990's, many companies set up investment partnerships, which have limited life spans, to help executives take advantage of the extraordinary boom then in the stock market. Now, with the public mistrustful of corporate executives and directors, Marsh worries about the appearance of a conflict of interest, the executive said.

The disclosures about Trident may only add to a perception that Marsh, which advertises itself as a trusted adviser for insurance buyers and mutual fund investors, has had conflicts. Last year, Putnam Investments, a mutual fund company that Marsh owns, acknowledged that it had allowed some big investors to profit at the expense of individual clients.

Based in New York, Marsh is the world's largest insurance broker, helping companies buy policies that can cost millions of dollars a year.

Last week, the New York State attorney general, Eliot Spitzer, filed a civil suit against Marsh, contending that it had worked with big insurers like the [American International Group](#) and Ace to fix prices and cheat its clients. Three executives at A.I.G. and Ace have pleaded guilty to criminal charges related to the inquiry, which is continuing.

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New York State investigators are aware of Trident, but for now are focusing on the suspicions of price fixing, according to an investigator.

On Wall Street yesterday, Marsh shares rose 82 cents, or 3.4 percent, to \$24.92. Since Mr. Spitzer announced his suit last week, its shares have fallen 46 percent, leaving Marsh investors potentially \$11 billion poorer.

Marsh created Trident II five years ago, after the success of an earlier partnership called Trident. Marsh himself put \$300 million into Trident, with pension funds and other institutional investors putting up most of the rest. Charles Davis, a former investment banker at [Goldman, Sachs](#), has run Trident since its inception.

From the start, Marsh worried about conflicts of interest at Trident. In an October 1999 partnership agreement, it said that Trident and Marsh might have both potential and actual conflicts. Marsh and the Marsh executives running Trident would act in good faith to work out such conflicts, the agreement said.

The potential conflicts of interest fell into several categories. Because they had personal stakes in Trident and received fees for its success, Marsh executives stood to profit by providing low estimates or otherwise understating matters if Trident bought companies from Marsh. In essence, the executives would be selling Marsh's property to themselves.

In addition, Marsh itself might be able to make money on its Trident stake at the expense of its clients by encouraging those clients to buy insurance from companies in which Trident had invested.

But the Marsh executive said Marsh managers involved in Trident had gone to great lengths to defuse potential conflicts of interest. Marsh executives repeatedly recused themselves from deals where they might profit at the company's expense, this executive said. And Marsh board

members played no role in deciding what investments Trident would make, he said.

Despite the concerns about possible conflicts, Trident and Marsh conducted several deals together. In June 2002, Trident bought 43 percent of a small insurance broker called the Arc Group from Marsh for \$23.6 million. The purchase resulted in a \$9 million profit for Marsh and was approved by Marsh's executive committee, Marsh said in a public filing.

Both Mr. Davis and Mr. Greenberg, Marsh's chairman, were entitled to \$210,000 incentive payments as a result of the deal, but both men deferred the payments "in view of the potential conflict of interest," the filing said. It is unclear whether they have since received the payments.

Trident's most successful investment was Axis Capital, a reinsurer, or insurance company that provides extra coverage for other insurers in case of catastrophic losses. Trident founded Axis after the September 2001 terrorist attacks increased demand for reinsurance, and Axis rapidly became highly profitable. Trident now owns about 9 percent of Axis, a stake worth \$330 million.

Axis places many of its policies through Marsh, but both Axis and Marsh said yesterday that Marsh did not steer clients to Axis to benefit Trident.

"Axis's business is appropriately diversified among brokers in the markets in which it does business," a spokeswoman for Axis said.

