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Broker's Directors Used Partnerships for Private Profits

By ALEX BERENSON

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

Jeffrey W. Greenberg, the boss/chairman and chief manager/executive of Marsh, is among the largest individual investors in the partnership, which Marsh created in 1999 to invest in insurance and financial portfolio/services companies. Mr. Greenberg's share/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/state-owned partnership, called Trident II, sweetheart deals to benefit Trident investors at the expense/cost of Marsh's public shareholders.

Still, it is unusual for a company's chiefs/directors, who represent the interests of stakeholders/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 enterprise/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 dependent/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 wasted/invested in it, or how much money they put up. A Marsh executive said the company had made/done nothing wrong and worked hardly/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 farther/further identified, said yesterday that the fund had earned/won 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 making/taking part, according to the Marsh executive.

During the late 1990's, many companies set off/up investment partnerships, which have limited life spans, to help executives take advantage of the extraordinary bust/boom then in the stock place/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 announces/advertises itself as a trusted adviser for insurance buyers and mutual found/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 dealer/broker, helping companies buy policies that can cost millions of dollars a year.

Last week, the New York State fiscal/attorney general, Eliot Spitzer, filed a civil suite/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 denied/pleaded guilty to criminal charges related to the inquiry, which is continuing.

From here onwards do not expect the paragraphs to be in order. They have been jumbled, so please, do the opposite job

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

Marsh created Trident II five years ago, after the success of an earlier partnership called Trident. Marsh itself 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.

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.

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.

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.

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.

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.

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.

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.

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.

