Safety and Soundness of Client Assets

In recent weeks, the question of asset safety has been asked frequently throughout the financial services industry. The following questions and answers are designed to address this important issue from the perspective of Diversified Trust and our clients.

As a client of Diversified Trust, where are my assets held in safekeeping?

All of our client assets are held in safekeeping at one of our two master custodians – State Street Bank & Trust Company of Boston and/or Charles Schwab & Company which is headquartered in San Francisco. We selected these two organizations because they have a long history of being industry leaders in "custody, safekeeping, securities processing and recordkeeping" services. That is their primary focus and business. Accordingly, the credit crisis and related upheaval in the American financial system have not placed our master custodian partners at the same degree of risk as many others in the financial services industry.

Many banks and brokerage companies have witnessed a precipitous decline in their stock values as evidenced by the S&P 500 Financials Index falling 41.3% for the twelve months ended September 30, 2008. In contrast, State Street Bank experienced a more modest decline of 15.4% during this 12-month period, and Schwab actually appreciated 21.5% during these difficult 12 months.

Who is State Street Bank?

State Street has been our primary master custodian since our inception. They are one of the undisputed leaders of the custody and safekeeping business. They have been in business since Massachusetts Governor John Hancock approved their charter in 1792 – the same year that the New York Stock Exchange debuted. In 1924, State Street was named custodian of the first U.S. mutual fund, and the company has long enjoyed its leadership role in servicing as the nation's largest U.S. institutional custodian. With $15.3 trillion in assets under custody as of June 30, 2008, State Street operates in 26 countries with more than 100 geographic markets worldwide.

Why do you employ Charles Schwab & Company as a separate custodian?

For certain types of accounts (primarily IRA's and smaller accounts), we have determined that it is more beneficial to administer client assets at Schwab. As a brokerage organization, Schwab is able to process certain transactions more efficiently for our clients. With over $1.3 trillion in client assets as of June 30, 2008, Schwab is a leader in the institutional discount brokerage business. Like State Street, Charles Schwab Corporation is one of our nation's leading providers of custody, investment operations, recordkeeping, and securities administration services.

What happens to my assets if either State Street or Schwab go out of business?

First and foremost, our client assets are segregated and kept apart from the corporate assets of these custodian firms. In fact, federal laws and regulations require custodians to segregate client assets from the bank or brokerage firm's own proprietary funds and securities. Therefore, the safety of our client assets is not dependent upon whether State Street or Schwab has assets greater than its liabilities. Accordingly, the safety of our client assets would not be placed in jeopardy by the financial failure of either of these firms.

What is the difference between account types at a bank?

It is important to understand the difference between deposit, trust, fiduciary and custodial accounts at a bank. Here are some simple answers derived in large part by a recent publication from the American Bankers Association.

The majority of Diversified Trust's accounts are trust and fiduciary relationships through either revocable or irrevocable trusts. In addition, in some instances we establish custodial accounts for our clients. Assets held in **trust, fiduciary and custodial accounts** at a trust company or bank do not become assets or liabilities of that bank and are segregated from the bank's assets. As appointed by the client, the bank or trust company serves in the role of trustee, fiduciary or custodian, as applicable, on behalf of such client. It is important to note that the client's account ownership remains vested in the individuals or entities for whose benefit the bank is serving as trustee, fiduciary or custodian, and such client's assets are not subject to the claims of the bank's creditors.

Another type of account that may be established at a bank is a **deposit account** (such as a CD, savings or checking account). As a non-depository trust company, Diversified Trust does not accept deposit accounts. However, it is important to understand how they work. Deposit accounts of a commercial bank become liabilities of that bank. As such, these types of accounts create a debtor-creditor relationship between the bank and the depositing customer. In exchange for the money deposited, a liability of the bank is created which is the bank's contractual promise to repay the amount on deposit plus any applicable interest. Deposit accounts are insured by the FDIC up to a stated maximum amount which was recently increased to $250,000 per depositor per bank through 12/31/09.

Is a brokerage company regulated differently than a bank regarding the segregation of client assets?

Although banks and brokerage companies have different regulators, the fundamental principle of segregating client assets from the institution's corporate assets is the same – and consequently client assets are not subject to the claims of creditors in either circumstance. One distinction is that brokerage firms are not required to separately safekeep assets in a specific client's name, but rather they are permitted to hold assets in a common "street name" in order to efficiently conduct transactions for the firm's clients. To protect brokerage clients against the possibility of faulty recordkeeping, the Securities and Exchange Commission requires registered broker-dealers to maintain net capital to provide financial resources so that customers will get their cash and securities back if the firm fails. According to the SEC, customer claims for their funds and securities are senior to other claims on the broker-dealer. Additional protection for securities and cash is provided by the Securities Investor Protection Corporation (SIPC). The SIPC provides up to $500,000 of protection for accounts held in each separate capacity (e.g., joint tenant or sole owner), with a limit of $100,000 for claims of uninvested cash balances. As a recent example, the SIPC issued a statement on Lehman Bros., assuring investors that their personal holdings with Lehman Bros. brokerage would not be affected by the bankruptcy filing. It is important to note, however, that SIPC insurance covers only the return of misplaced or lost registered securities and cash (up to the stated coverage limits). SIPC does not protect against the loss of market value in securities. In addition, SIPC does not provide any protection for commodities, foreign exchange or other non-SEC registered investments.

In addition to SIPC protection, our clients with assets held at Schwab are protected through supplemental coverage from Lloyd's of London. Schwab's coverage with Lloyd's, combined with SIPC coverage, provides protection of securities and cash up to an aggregate of $600 million, and is limited to a combined return to any customer from a Trustee, SIPC and Lloyd's of $150 million, including cash of up to $1 million. This additional protection becomes available in the event that SIPC limits are exhausted.

How safe are the money market funds utilized by Diversified Trust?

We have recently reviewed both the taxable and tax-exempt money market funds we utilize. Most of our taxable client holdings are in tax-exempt money markets, which do not have any exposure to corporate credit. Our largest tax-exempt money market fund holdings are managed by Federated which issued a statement saying that as of 9/15/08 none of their money market funds had exposure to Lehman, AIG or Washington Mutual, and they are confident in their ability to maintain the $1.00 NAV. On the taxable side, the SSGA MMF is the largest fund we utilize. They also reported no direct exposure to Lehman, AIG or Washington Mutual. Any indirect exposure (i.e., through a Repo or other financial instrument) would have a negligible impact to the funds we use. Schwab and Vanguard have also issued statements regarding their ability to maintain the $1.00 NAV. We remain confident that the money market funds we utilize will maintain the $1.00 NAV.

With regards to the fund that did "break the buck", managed by The Reserve Funds – this prominent money-market fund held Lehman Bros. debt. It was the first time since 1994 that such a fund, which is supposed to be as safe as a bank account, had lost money. The loss was made worse by a run on the fund. Over two days, investors pulled more than half of their assets from the fund, once valued at $64 billion. It is important to note that this entity was a smaller, closely held enterprise without the financial resources of a larger financial institution that could make their investors whole. All of the money market funds used by DTC, taxable or tax-exempt, are part of very large institutions that we expect would support their funds' $1.00 NAV in the event of any negative credit or cash flow events.

In closing, each of the money market funds we utilize has opted into the U.S. Treasury's Temporary Guarantee Program and is guaranteed up to the number of shares held at the close of 9/19/08. The entire amount held in the fund as of September 19, 2008 is covered for the **three month** period initially provided and extendable by the Treasury up to September 19, 2009. In addition, each of our money market funds is sponsored by substantial institutions including State Street Bank, Schwab, Vanguard, Fidelity and Federated.