



**Mariner Kemper**  
Chairman and  
Chief Executive Officer

February 2, 2007

Sent via Fed-Ex

Office of Exemption Determinations  
Employee Benefits Security Administration  
Attn: IRA Investment Advice RF 1 - Mr. Ivan L. Strasfeld  
Room N-5700  
U.S. Department of Labor  
200 Constitution Avenue, N.W.  
Washington DC 20210

Dear Mr. Strasfeld:

This letter and the attached memorandum prepared by UMB's investment advisory department is in response to the Department of Labor's Request for Information dated December 4, 2006 regarding computer models for providing investment advice to IRA participants and your letter to UMB Financial Corporation dated December 12, 2006. Should you have any questions or need additional information, please do not hesitate to contact me.

Yours very sincerely,

A handwritten signature in cursive script, appearing to read 'Mariner'.

Mariner Kemper  
Chairman & Chief Executive Officer  
UMB Financial Corporation

JMK:jw

cc: Clyde F. Wendel  
Scott A. Betz  
Lawrence A. Knecht, Esq.

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ATTACHMENT TO LETTER FROM MARINER KEMPER - UMB FINANCIAL CORPORATION

1. Are there computer model investment advice programs for the current year and preceding year that are, or may be, utilized to provide investment advice to beneficiaries of plans described in section 4975(e)(1)(B)-(F) (and so much of subparagraph (G) as relates to such subparagraphs)(hereinafter "IRA") of the Code which:
  - a. Apply generally accepted investment theories that take into account the historic returns of different asset classes over defined periods of time;  
UMB primarily utilizes two systems (Ibbotson and Zephyr Allocation Advisor) that both perform this type of analysis. Both systems have databases of historical returns of more than 80 years for a wide variety of indexes and asset classes. Both utilize theories and techniques of modern portfolio theory that have become generally accepted methods for optimizing asset allocation to maximize return for a given level of risk.
  - b. Utilize relevant information about the beneficiary, which may include age, life expectancy, retirement age, risk tolerance, other assets or sources of income, and preferences as to certain types of investments;  
UMB utilizes a questionnaire developed in conjunction with a nationally recognized asset management firm that asks the potential investor questions regarding age, life expectancy, retirement age, risk tolerance, other assets or sources of income and general preferences. This questionnaire is not directly tied into the Ibbotson or Zephyr systems. The results of the questionnaire are used by UMB's investment professionals to select an appropriate asset allocation using the two systems.
  - c. Operate in a manner that is not biased in favor of investments offered by the fiduciary adviser or a person with a material affiliation or contractual relationship with the fiduciary adviser;  
The asset allocation systems employed do not make mutual fund, manager or individual security selections. The systems are only used to optimize the asset allocation process. Other systems may be available that UMB does not currently utilize but UMB's knowledge about these systems is extremely limited.
  - d. Take into account the full range of investments, including equities and bonds, in determining the options for the investment portfolios of the beneficiary.  
UMB's asset allocation process takes into account equities and bonds as well as other asset classes including cash and real estate investment trusts. These broad categories are also further divided into domestic and foreign securities, and the equity market is divided by capitalization (large, mid, small) and style (value, core, growth). Fixed income markets are divided into taxable and tax-free investments as well as by duration and quality. These are the areas in which UMB has typically invested, but it is certainly not exhaustive of all investment options available to investors. UMB can also override the historical return assumptions used by the program if we have good reason to expect variation from past performance. It is also important to note that the systems available have

multiple indexes and benchmarks to represent the various asset classes. For example, the category large cap value could be represented by the Russell Top 200 Value, the Russell 1000 Value, the S&P%Citigroup Value, the Dow Jones Large Cap Value or the ValueLine Composite. The user of the software must make the selection of the benchmark to be used. Each choice of index would yield different results since the historical risk and return characteristics of each index vary, and this selection must be made for each asset class included in the analysis by the computer model.

e. Allow the beneficiary, in directing the investment, sufficient flexibility in obtaining advice to evaluate and select investment options.

Beneficiaries are free to direct UMB to invest assets as they desire.

2. If currently available computer models do not satisfy all of the criteria described above, which criteria are presently not considered by such computer models? Would it be possible to develop a model that satisfies all of the specified criteria? Which criteria would pose difficulties to developers and why?

The most difficult criteria to meet would be to encompass the full range of investment options. Given the breadth of the worldwide investment universe it would be nearly impossible to consider all investment options. We are not aware of any system that will perform individual security selection in addition to the asset allocation analysis provided by the systems that we currently employ. Systems currently used by UMB do not individualize the advice given to each participant. UMB's investment professionals utilize the survey discussed above to select a given investment objective and the computer models are used to determine the optimal asset allocation for that objective.

3. If there are any currently available computer model investment advice programs meeting the criteria described in Question 1 that may be utilized for the providing investment advice **to IRA beneficiaries**, please provide a complete description of such programs and the extent to which they are available **to IRA beneficiaries**.

The systems used by UMB (Ibbotson and Zephyr) are designed to optimize portfolio return for a given level of risk. Using historical returns, risk (as measured by standard deviation) and correlations the systems create an efficient frontier of optimal portfolios. The system recommends an asset allocation at each point on the efficient frontier. The costs of such systems are beyond the affordability of typical IRA owners but would be available through an investment manager such as UMB.

4. With respect to any programs described in response to Question 3, do any of such programs permit the IRA beneficiary to invest IRA assets in virtually any investment? If not, what are the difficulties, if any, in creating such a model?

The systems discussed track a very broad range of asset classes and investment types but they are certainly not exhaustive of the investing universe. There is insufficient historical data for many investment types, and as the investing universe becomes more global it is difficult to include all investment options. Other problems arise in deciding what indexes and benchmarks to use to represent various asset classes. Because various index services subdivide broad asset classes in different ways there is little consistency between

benchmarks. As mentioned above, the systems utilized by UMB do not perform individual security selection, and we are not aware of any currently available systems that do.

5. If computer model investment advice programs are not currently available to IRA beneficiaries that permit the investment of IRA assets in virtually any investment, are there computer model investment advice programs currently available to IRA beneficiaries that, by design or operation, limit the investments modeled by the computer program to a subset of the investment universe? If so, who is responsible for the development of such investment limitations and how are the limitations developed? Is there any flexibility **on the part of an IRA beneficiary to** modify the computer model to take into account his or her preferences? Are such computer model investment advice programs available to the beneficiaries of IRAs that are not maintained by the persons offering such programs?

Both Zephyr and Lbbotson allow the user of the software to limit the investment universe to a subset of asset classes. UMB limits its analysis to asset classes that are approved for use by the bank's policy committees. For example, UMB does not currently consider hedge funds in its asset allocation analysis because the bank does not believe that hedge funds are appropriate investments for the large majority of the bank's clients. This subset is determined by both the investment policy of the bank as well as the recommendations of the asset allocation committee. As new asset classes are approved for use they are added to the simulations done in Zephyr and Lbbotson. IRA beneficiaries can direct UMB to modify the model recommendations based on preferences. While these programs are available to IRA beneficiaries the cost is generally prohibitive for the beneficiaries personally. The models are made available to UMB's clients as part of the investment management process.

6. If you offer a computer model investment advice program based on nonproprietary investment products, do you make the program available to investment accounts maintained by you on behalf of **IRA beneficiaries?**

The recommendations and models that UMB derives from Zephyr and Lbbotson are available to all UMB clients including IRA beneficiaries.

**7. What are the investment options considered by computer investment advice programs? What information on such options is needed? How is the information obtained and made part of the programs? Is this information publicly available or available to IRA beneficiaries?**

The investment options considered include domestic and foreign equities, domestic and foreign bonds (taxable and tax-free), cash, REIT's, real estate, private equity, hedge funds, commodities and other unique investments. It is important to note that the systems used by LIMB make only asset allocation recommendations and not security selection recommendations within each asset class. As discussed above, UMB limits this universe of asset classes to those approved by the bank's policy committees. The information needed by the programs is the historical monthly returns. The models then use this information to calculate historical standard deviation and correlations to calculate the optimal portfolios. UMB obtains this information directly from the software vendors

who compile the data from various sources. Most data is publicly available but would be very difficult for an individual to assemble and utilize in a short period of time.

**8. How should the Department or a third party evaluate a computer model investment advice program to determine whether a program satisfies the criteria described in Question 1 or any other similar criteria established to evaluate such programs?**

The programs should be evaluated based on the breadth of investment options covered, the amount of historical data available for the benchmarks used and the accuracy of the techniques used to create the efficient frontier. It is also important to evaluate the ease with which the program can be individualized to each investor's preferences, keeping in mind that individual security selection is not current] available.

**9. How do computer model investment advice programs present advice to IRA beneficiaries? How do such programs allow beneficiaries to refine, amend or override provided advice?**

UMB provides reports showing recommended asset allocations from the computer advice program to beneficiaries. They are free to accept or change the recommendations provided by the program.