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DATE: May 5, 2010

TO: Office of Regulations and Interpretations  
Employee Benefits Security Administration  
U.S. Department of Labor

FROM: Morningstar, Inc.

SUBJECT: 2010 Investment Advice Proposed Rule

Thank you for giving us the opportunity to offer our comments on the proposed 2010 Investment Advice Rule to help increase defined contribution plan participants' access to high-quality, unbiased investment advice. Legislation that makes plan sponsors feel more comfortable providing advice to their participants can have far-reaching benefits, not only for plan sponsors, providers of advice, and, most importantly, individual participants, but for society as a whole. If more individuals are better prepared for retirement, it enhances quality of life for our citizens and reduces strain on our economy.

Through our subsidiaries, Ibbotson Associates and Morningstar Associates, Morningstar has been providing independent investment advice to defined contribution plan participants since the late 1990s. Today, more than 23 million retirement plan participants have access to Morningstar's retirement advice and discretionary managed accounts through approximately 156,000 plan sponsors and 23 plan providers. Ibbotson Associates and Morningstar Associates collectively manage more than \$16 billion in discretionary retirement managed account programs.

We applaud the Department of Labor for recognizing that these new rules do not invalidate its earlier regulations, exemptions, or guidance relating to the provision of investment advice. We believe that preservation of the current, independent advice programs, which operate either through a direct advisory relationship or under the model described in the Sun America Advisory Opinion, aligns with the Department's intention to promote the use of high-quality, unbiased investment advice. Millions of plan participants currently receive independent investment advice and discretionary management under relationships that do not raise conflict-of-interest concerns, and therefore do not require exemptive relief. As such, it's important that the existing investment advice arrangements that were permissible prior to the Pension Protection Act of 2006 remain available for these individuals.

While we commend the Department's validation of the existing independent advice relationships, we are concerned by the language in the proposed rule that dictates the specific factors that need to be considered in providers' advice methodologies. Generally speaking, mandating the exact parameters that advice providers must include in their advice calculations will inhibit innovation. We continuously update and refine our inputs, capital market assumptions, and forecasting and optimization techniques as we gain new insights, technologies advance, and the world financial systems evolve. Building and managing portfolios for individual investors are our areas of expertise. We have been strengthening our approaches and producing groundbreaking academic research on these topics for decades. Legislation that dictates the key tenants of the advice framework would, in the long run, stifle the evolution of advice.

In addition to our general concerns about inhibiting innovation, we are concerned by the specific requirement that computer models consider *only* historical asset class returns. What constitutes “historical” asset class returns is open to interpretation and can have a large impact on results. Government bonds, for example, returned almost 10% per year on average over the last 30 years, but just 5% per year on average over the last 84 years. In addition, the use of historical asset class returns in optimization and forecasting is not a best practice or an industry standard. The use of purely historical asset class returns would lead to inflated wealth forecasts and favor higher-risk assets in optimizations. Forward-looking capital markets assumptions, developed by in-house investment committees, are standard inputs among experienced wealth managers.

We are also concerned by the requirement that computer models *not* consider historical returns of individual funds or other investments. We understand the Department may be concerned that investment experts and independent auditors may have difficulty evaluating whether or not computer models factor short-term investment fund performance in a manner that does not favor affiliated higher-fee funds. And, we completely agree with the Department that lower fees are, in general, good for investors, and that lower-fee portfolios will, on average, outperform higher-fee portfolios.

However, we believe that there is value in examining how a specific asset class or individual investment has performed over time. Best institutional practice is not simply to construct the cheapest possible portfolio, but is rather to combine careful attention to costs with the judicious purchase of value-added money management services. Retail investors should not get something less than the best institutional practices.

Notwithstanding our concerns over the methodology mandates, we believe that this legislation creates an opportunity for more Americans to receive quality investment advice that will help them achieve secure, comfortable retirements. Again, thank you giving us the opportunity to provide comment on the regulation. We look forward to continuing to work with the Department to increase access to quality investment advice for all workers.

Sincerely,

Joe Mansueto  
Chairman and Chief Executive Officer  
Morningstar, Inc.