



## Market & Economic Conditions

Major Indices	2Q, 2008 Returns
S&P 500	-2.7
Dow Jones	-6.9
NASDAQ	-0.6
Russell 1000-Growth	1.2
Russell 1000-Value	-5.3
Russell 2000	0.6
MSCI EAFE	-2.3
Lehman Aggregate	-1.0
Lehman 2% Issue Constrained High Yield Index	2.0

World financial markets remained volatile during the second quarter of 2008. Fears of rising inflation and slowing growth triggered memories of 1970s style stagflation and sent equity markets reeling in June. Commodity prices soared again, led by oil and corn, which both rose to all time highs by the close of the quarter. Fixed income results were mixed. Investors recovered some of their appetite for risk thus supporting corporates and mortgages, but rising interest rates negatively impacted U.S. Treasuries and government agencies.

In a marked recovery after the end of the weak first quarter, equity markets rallied around the globe in April and May. Some areas posted double digit gains and all major indices were in the black for the first two months of the quarter. However, that was short lived and June turned out to be one of the worst months in recent memory for many indices.

For the quarter, domestic small cap stocks (Russell 2000: +0.6%) outperformed large cap stocks (S&P 500: -2.7%). From a style perspective, growth trumped value in all capitalization ranges except for the mega caps. The 6.6% spread advantage for growth is the largest since the early part of the decade (Russell 1000 Growth: +1.3%, Russell 1000 Value: -5.3%).

Within the primary sectors of the S&P 500, returns varied wildly during the second quarter. Unsurprisingly, Financials (-19%) were hit hardest due to a string of balance sheet write downs propagated by mortgage defaults and credit concerns. The Industrials (-10%) and Consumer Discretionary (-8%) sectors sank as recession fears took their toll on companies leveraged to consumer and corporate spending. On the positive side, soaring commodity prices propelled the Energy sector (+17%) higher.

Overseas, both developed (MSCI EAFE: -2.3%) and emerging markets (MSCI Emerging Markets: -0.8%) followed a similar pattern as their domestic equity counterparts, with an early recovery after the first quarter malaise followed by sharp declines in June. On a country basis, Norway (+13%) led developed countries, thanks to its significant commodity exposure, while Belgium (-19%) came in last. Performances diverged widely among emerging countries as well: Argentina (+35%) and Brazil (+18%) climbed, while Pakistan (-27%) and India (-20%) crumbled.

The Fixed Income markets were mixed. While the yield on the 10-year U.S. Treasury rose by more than 50 basis points from 3.45% to 3.99% at quarter end, investors regained some appetite for credit risk as spreads narrowed from the first quarter's gap outward. Specifically, the Lehman Aggregate Index fell 1.0% during the three month period, while the Lehman 2% Issue Constrained High Yield Index rose 2.0%. The U.S. dollar showed some stability relative to the Euro and the UK pound, and managed to gain relative to the Japanese yen.

AFN39292-1 08-08

## Fund Observations

### MUTUAL OF OMAHA'S RETIREMENT PROGRAM PRODUCT (0.00% Class as of 06/30/08)

- For the quarter, domestic growth stocks significantly outperformed domestic value stocks as evidenced by the performance of the Growth Stock Index Fund (+1.06%) relative to the performance of the Value Stock Index Fund (-5.35%). Longer term, growth stocks have now outperformed value stocks over the trailing 3-yr period, although value still holds the advantage over growth for the 5-yr and 10-yr periods.
- The Small Company Fund (+5.79%), which had struggled in the first quarter of 2008, was the top-performing fund for the quarter. The strong performance has also brought the Fund's return above the Russell 2000 Index benchmark for each of the 1, 3, 5, and 10 year periods.
- Evergreen Small-Mid Growth Fund (+5.13%) and Rainier Small/Mid Cap Equity Portfolio (+4.27%) also managed to post strong returns for the second quarter. Although not overwhelming on an absolute basis the 1.33% quarterly return of Strategic Value Fund represents a relative outperformance of 664 basis points over the Russell 1000 Value Index (-5.31%).
- Performance over an extended period of time is key to successful retirement investing. Consistent with that message, 81% of the actively managed investment options found in the retirement program product with at least a 10-yr. performance record have outperformed their benchmark over that timeframe.
- Comparing Mutual Directions 5, which has a 100% equity allocation, to a broad stock market indicator such as the S&P 500 Index, evidences the value of diversification and allocating assets across a number of core categories. Mutual Directions 5 (+0.31%) outperformed the S&P 500 Index (-2.73%) by 3.04% for the quarter. Mutual Directions 5 has also outperformed the S&P 500 by 4.24% (1-yr), 4.15% (3-yr), 4.47% (5-yr), and 2.74% for the 10 year period ending 06/30/2008.
- With the end of the second quarter, the age-based Mutual GlidePath Series celebrates its 1-year anniversary. The GlidePath Series offers investors a diversified investment portfolio based on their target retirement date (nine funds in 5-yr. increments ranging from 2005-2045). Each fund is designed to gradually become more conservative as an investor moves toward and through retirement.

*Processes to design, monitor and evaluate the product and the Mutual Directions portfolios are not taken on behalf of any plan or with reference to any plan's particular investment objectives. They do not substitute for the plan fiduciary's own responsibility to select, monitor and evaluate the investment offerings and objectives of its own plan. Ultimately, the plan fiduciary is responsible for this decision making, and neither United of Omaha and Callan Associates nor their representatives or affiliates act as the plan fiduciary's investment advisor.*

*Mutual Directions and fund performance figures represent past performance and are net of investment and administrative fees (except for the Guaranteed Account, which is not assessed an administrative fee.) Your plan's specific returns may be lower. An administrative fee of 0.00% is reflected in the returns on this page. Also, current performance may be lower or higher than the performance data quoted above. Contact your plan administrator or access your online account for your plan's returns current to the most recent month-end.*

*Figures are reported on a total return basis, which is the change in value of an investment over a given period, assuming reinvestment of any dividends and capital gains. Investments assume a lump sum is invested at the beginning of the time period shown. The results for individual accounts and for different time periods may vary.*

*The Guaranteed Account is an individual investment choice that is not part of the Mutual Directions portfolios. It is not part of the program used by Mutual of Omaha to monitor the portfolios and their underlying funds at the product level.*

*Index names may contain trademarks and are the exclusive property of their respective owners.*

*United of Omaha is not affiliated with any of the fund companies offered within this product.*

*All funds may not be available as an investment option in a plan.*

*There is no guarantee that funds will achieve their objectives, and past performance is no guarantee of future returns. Fund values and investment returns will vary and principal values, when redeemed may be worth more or less than the original investment. The funds are not insured by the FDIC or by any other governmental agency; they are not obligations of the FDIC nor are they deposits or obligations of or guaranteed by the investment managers or their organizations.*

*Investment options are offered through a group variable annuity contract (Forms 901-GAQC-07 and 901-GAQC-07(OR)) issued by United of Omaha Life Insurance Company, which accepts full responsibility for all of United's contractual obligations under the contract but does not guarantee any contributions or investment returns except as provided in the annuity for the Guaranteed Account. Neither United of Omaha nor its representatives or affiliates offers investment advice in connection with the contract.*

AFN39292-2 08-08

### **At The Close...**

It is a natural human tendency to revert to an overly pessimistic and conservative outlook to investing during a bear market much like investors often become overly confident and aggressive during bull markets. The fact of the matter is that for most investors the pains of investment losses will linger much more than the joys of previous investment gains. According to Franklin Advisors, it is important to keep in mind that a premature deviation from a well-developed retirement planning strategy "ignores fundamentals such as risk tolerance and time horizon." With a well-planned retirement savings strategy portfolio adjustments should not be driven by changes in the current market conditions, but rather should be adjusted mainly due to changes to the investors' personal situation. That being said, if the current market turmoil is causing an investor an overwhelming amount of stress, perhaps the investor should reevaluate their actual risk tolerance level based on their personal emotional factors, time horizon, and any other outside factors.

AFN39292-3 08-08

---