



Fourth Quarter 2008

Market & Economic Conditions

Major Indices	4Q, 2008 Returns
S&P 500	-21.9
Dow Jones	-18.4
NASDAQ	-24.3
Russell 1000-Growth	-22.8
Russell 1000-Value	-22.2
Russell 2000	-26.1
MSCI EAFE	-20.0
Lehman Aggregate	4.6
Lehman 2% Issue Constrained High Yield Index	-18.1

While the fourth quarter arguably did not endure the tidal wave of news experienced in the third quarter, a number of significant events did occur, notably continued capital infusions into banks including the purchase of preferred stocks, a nearly \$24 billion bridge loan to the ailing U.S. automakers, and another historical reduction in the fed funds rate. The Federal Reserve reduced short-term rates three times during the quarter from 2% to a "range" between 0-0.25%. Not since 1958 has the target rate been below 1%. And if continued government intervention was not enough, news of a massive and still unfolding hedge fund scandal broke in the closing weeks of the year. Former NASDAQ chief Bernard Madoff admitted his massive hedge fund was nothing more than a Ponzi scheme, a complete fraud that may be as large as \$50 billion.

Fourth quarter results were dismal across equity indices both domestically and globally. Declines were steep for most benchmarks and would have been markedly worse if it was not for a meaningful rally in late-November through year-end during which equity indices rallied 20% to 30% in some cases.

In the U.S., large cap issues performed "best" (S&P 500: -21.9%) while mid cap (Russell MidCap: -27.4%) and small cap (Russell 2000: -26.1%) fell even further. Less than 1% separated growth (Russell 1000 Growth: -22.8%) and value (Russell 2000 Value: -22.2%) in large caps while value managed a 250 basis point outperformance in small cap (Russell 2000 Value: -24.9% vs. Russell 2000 Growth: -27.4%). Within the primary sectors of the S&P 500, Financials fell 37% and was the worst performing sector. Telecommunications held up best falling just over 1% despite a major decline among wireless carriers.

Equities abroad performed remarkably similarly to domestic issues. Developed stocks (MSCI EAFE: -20.0%) declined sharply and had essentially no spread between growth and value. Emerging markets stocks (MSCI Emerging Markets: -27.6%) fared even worse. Among developed countries, Japan (-10%) weathered the turmoil best while Austria (-43%) suffered the most. Country results were even more disparate in developing countries with China managing to decline just 10% while Russia's market fell by more than 51% in the quarter.

Investment grade fixed income held up fairly well during the quarter (Barclays Capital Aggregate Bond Index: +4.6%). However, as one moved down the quality spectrum to asset backed securities and credits below single A, performance deteriorated significantly. As a result, high yield bonds (BarCap 2% Issue Constrained High Yield: -18.1%) declined sharply.

REITs (NAREIT Equity Index: -38.8%), which had held up well for the first three quarters of 2008, were severely punished as weak balance sheets and short term financing needs generated great consternation among investors.

AFN39292-1 02-09

Fund Observations

MUTUAL OF OMAHA'S RETIREMENT PROGRAM PRODUCT (0.00% Class as of 12/31/08)

- For the quarter, only the Bond Index Fund (+6.37%) and the Guaranteed Account (+0.98%) were able to post positive returns. Likewise for calendar year 2008, the Bond Index Fund (+5.55%) and the Guaranteed Account (+3.90%) were the only investment options turning in positive results.
- On a positive note, every investment option available in the product managed to produce a gain in the month of December. Returns ranged from +0.10% (Strategic Value Fund) to +14.78% (Cohen & Steers Institutional Realty Shares).
- For the month of December, Causeway International Value Fund (+9.80%) outperformed the MSCI EAFE Index (+6.01%) by an impressive margin of 3.79%. Longer term, the combination of Causeway International Value Fund and Artio International Equity Fund II has helped produce a steady stream of returns for the International Developed Countries Fund. For the 10-year period ending 12/31/08, the International Developed Countries Fund (+3.73%) outperformed the MSCI EAFE (+0.80%) by 2.93%.
- Consistent with the theme of long-term investing, for the actively managed stand-alone investment options that have at least a 10-year performance record, 88% have equaled or outperformed their benchmark over that time period.
- Considering the particularly sharp declines in emerging markets stocks for calendar year 2008 (MSCI Emerging Markets: -53.18%), it may be somewhat surprising to know that over the last 5 years the International Emerging Markets Fund (+7.02%) and the Emerging Markets Index Fund (+6.42%) remain the top two performing funds. This highlights the extremely volatile nature of emerging market stocks. Emerging markets are considered extremely risky; therefore, a controlled exposure to the Emerging Markets Index Fund remains at 5% in Mutual Directions 4 and 5.

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AFN39292-2 02-09

At The Close...

Investors around the globe seem happy to put 2008 behind them and have 2009 start out on a positive note. However, few would argue that the challenges that embroiled financial markets in 2008 are wholly in the past and skepticism remains high as we embark on a new year. Benjamin Graham, widely known as the father of value investing, once said "Individuals who cannot master their emotions are ill-suited to profit from the investment process". Particularly in times of uncertainty, diligent review of and adherence to a well-developed investment policy remains the most prudent course for investors. Asset allocation models such as Mutual Directions and Mutual GlidePath and Individually Managed Account options such as PMFM 401k Toolbox and Morningstar Retirement Manager offer solutions to investors seeking to remove emotions from the investment decision-making process.

AFN39292-3 02-09
