



First Quarter 2009

Market & Economic Conditions

Major Indices	1Q, 2009 Returns
S&P 500	-11.0%
Dow Jones	-12.5%
NASDAQ	-3.1%
Russell 1000-Growth	-4.1%
Russell 1000-Value	-16.8%
Russell 2000	-15.0%
MSCI EAFE	-13.9%
Lehman Aggregate	0.1%
Lehman 2% Issue Constrained High Yield Index	6.6%

The year 2009 welcomed a new U.S. President, new policy initiatives, new spending plans, and new tax structures at both the federal and state levels, but failed to welcome a change to the dour equity market environment. The market's rally off its November 2008 low fizzled shortly after the new year began and continued to decline until a brief respite in late January. The sell-off accelerated in February and by the end of the month, 10-year annualized returns for the S&P 500 were -3.5%. Despite the S&P 500 rallying 23% in 14 days in mid-March, the S&P 500 was still down 3% on a 10-year annualized basis ending March 31, 2009. The MSCI EAFE Index, which experienced robust gains in six of the last 10 years, fell into negative territory for the 10-year period. However, small cap (Russell 2000), emerging markets (MSCI EM), and REITs (NAREIT Equity) managed to remain positive over the same period.

Taking a closer look at the first quarter of 2009, the global financial markets continued to suffer. Equities worldwide fell sharply with the exception of emerging markets, the only major equity asset class to post positive results in the period. Fixed income investments fared better but did little to mitigate the equity losses. REITs, however, turned in the worst performance.

The largest declines in domestic equities came from small cap issues (Russell 2000: -15.0%), while mid cap (Russell Midcap: -9.0%) performed the best. Large cap (S&P 500: -11.0%) stocks split the difference. Growth outperformed value during the quarter in one of the biggest divergences between the two Russell style indices in a decade. Growth (Russell 1000 Growth: -4.1%) surpassed value (Russell 1000 Value: -16.8%) by more than 12%, the largest quarterly difference since value reigned during the collapse of the tech bubble in 2001-2002. This divergence in style results was felt across the capitalization spectrum in the U.S. as both the Russell Midcap and Russell 2000 style indices were also separated by more than 10%. Within the primary sectors of the S&P 500, Financials led the decline, dropping nearly 30%. Technology was the only sector that managed a gain with a rise of 4%.

Looking to overseas equity markets, there was a noticeable bifurcation or divergence between developed (MSCI EAFE: -13.9%) and emerging markets (MSCI Emerging Markets: +1.02%). The renewed strength

in the U.S. dollar cut into dollar based returns by 3 to 4% in the first quarter versus local currency results. Emerging markets were the strongest area of world equity markets. From a country perspective, Nordic neighbors Norway (+3.2%) and Finland (-22.2%) occupied the top and bottom spots, respectively, among developed markets in U.S. dollar terms.

Global bond markets stabilized to some degree during the first quarter as credit began to flow, albeit at a trickle. The Barclays Capital Aggregate Bond Index edged up 0.1%, aided by a 1.4% gain in March. The Index had noticeable dispersion within the underlying sectors. Treasuries, the darling of last year, fell as did Corporates, which were driven lower by Financials. Securitized bonds such as asset backed and residential mortgage backed finished higher. High yield bonds (BarCap 2% Issue Constrained High Yield: +6.6%) performed well as spreads narrowed.

Other areas of the financial markets thought to be less correlated to equities were punished during the first quarter. As mentioned above, REITs (NAREIT Equity Index: -31.9%) were the worst performing asset class during the quarter. The lack of transaction activity in the private markets, coupled with significant leverage and short term financing needs, have severely impacted the ongoing viability of many REITs. The six month return of the NAREIT Equity Index is down more than 58%.

At its low on March 6, the S&P 500 had retracted more than 55% from its previous high. The last few weeks of the quarter provided a significant relief rally spurred in part by government policy actions that were judged favorably by many market participants. Despite this significant recovery in equity prices, threats to the economic environment remain significant.

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Fund Observations

MUTUAL OF OMAHA'S RETIREMENT PROGRAM PRODUCT (0.00% Class as of 03/31/08)

- For the quarter, the Goldman Sachs High Yield Fund (+5.26%) and the BlackRock High Yield Bond Portfolio (+4.56%) posted the strongest returns.
- Every investment option available in the product managed to produce a gain in the month of March. Returns ranged from +0.31% (Guaranteed Account) to +14.42% (Emerging Markets Index Fund).
- For the quarter, Strategic Value Fund (-9.98%) outperformed the Russell 1000 Value Index (-16.77%) by an impressive margin of 6.79%. Longer term, the Fund has outperformed the Index over the 1, 3, and 5 year periods by 3.56%, 2.53% and 1.42%, respectively. The Strategic Value Fund is also used as an allocation within Mutual Directions 2-5.
- Consistent with the theme of long-term investing, for the actively managed stand-alone equity investment options that have at least a 10-year performance record, 89% have equaled or outperformed their benchmark over that time period. For the 5-year period, 76% have equaled or outperformed their benchmark.
- Considering the particularly sharp declines in real estate over the last year (NAREIT Equity Index: -58.16%), it may seem like a distant memory that the Index had posted a return of +35.06% in calendar year 2006. This highlights the importance of diversification and the challenges often encountered when investors chase the returns of the most recent hot investment.

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At The Close...

The fields of finance and economics lie at a crossroads between statistics and psychology. During periods of euphoria, fundamentals and ratios are discounted or ignored on the presumption that the climate will continue to improve. During periods of panic and distress, fundamentals and ratios are also discounted or ignored on the expectation that the malaise will extend far into the future. These human behaviors and emotions create the historic market volatility in which we are currently trapped. Particularly in times of uncertainty, diligent attention to asset allocation and risk assessment based on future capital needs and adherence to a well-developed investment policy remains a prudent long-term course for investors.

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