



Second Quarter 2009

Market & Economic Conditions

Major Indices	2Q, 2009 Returns
S&P 500	15.9%
Dow Jones	12.0%
NASDAQ	20.0%
Russell 1000-Growth	16.3%
Russell 1000-Value	16.7%
Russell 2000	20.7%
MSCI EAFE	25.4%
BarCap Aggregate	1.8%
BarCap 2% Issue Constrained High Yield	22.2%

After touching depths in early March that have not been seen since the 1990's, equities around the globe experienced the first positive quarter in a year. Equities soared across capitalization, style and economic sectors. Overseas markets, both developed and emerging, fared even better with a number of country specific indices rising more than 50% during the quarter. Fixed income assets also rose with the strongest gains coming from spread sectors such as high yield. Thus, reviewing financial market performance for the second quarter is far more appealing than it was just three months ago. Conventional wisdom that equity markets recover before clear evidence of an economic recovery seems to be holding true. Despite a major rally in equities, the economic environment remains rather challenged.

In stark contrast to the previous quarter, during which no major equity index was in positive territory, except emerging markets, all major equity indices experienced double-digit gains. Small cap stocks (Russell 2000: +20.7%) led the way, while large cap stocks (S&P 500: +15.9%) also posted significant gains. Style index performance was largely capitalization dependent. The Russell 2000 Growth (+18.0%) and Russell 2000 Value (+23.4%) Indexes were separated by more than 5%, while in the large cap space, Russell 1000 Growth (+16.3%) and Russell 1000 Value (+16.7%) were separated by less than 50 basis points. Economic sector performance was positive, although quite variable. In a huge reversal from last quarter's 30% decline, Financials performed the best (+35.7%) within the primary sectors of the S&P 500 while Telecom (+3.4%) experienced the smallest rally. All but three of the 10 economic sectors experienced double-digit returns (Health Care, Consumer Staples and Telecom).

Looking to overseas markets, the weakening U.S. dollar provided a tailwind to equity results and thus the gains overseas (MSCI EAFE: +25.4%) were even more dramatic in the quarter. In the emerging markets, the currency effect was even more dramatic, accounting for more than 10% of the rise in the MSCI Emerging Markets Index (+34.8%). From a country perspective, Singapore (+46.0%) and Ireland (+6.6%) occupied the top and bottom spots, respectively, among developed markets in U.S. dollar terms. Ireland

is mired in a residential real estate crisis that appears to be far worse than in the U.S. In emerging countries Hungary (+69.7%) performed best while Peru (+7.6%) languished.

Investors' appetite for risk has clearly returned to some degree as U.S. Treasury instruments lagged the fixed income markets. The Barclay's Aggregate rose by 1.8% in the quarter; however, there was significant dispersion between Treasury results and the spread sectors. Treasury bonds suffered sharp declines, while at the other end of the spectrum, high yield (BarCap 2% Issue Constrained High Yield: +22.2%) bonds rose.

REITs shined in the second quarter. REITs had been pummeled by the market, declining 58% in the six-month period ended March 31, 2009. The 28.9% rise enjoyed by the NAREIT Equity Index was driven in large part to a thawing of credit markets and a number of significant recapitalizations undertaken by major players in the REIT space.

At its low point on March 6, 2009, the S&P 500 had fallen more than 55% from its previous high. The subsequent months have provided a significant relief rally spurred in part by government policy actions that were judged favorably by many market participants and a renewed appetite for risk on the part of investors. 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 06/30/09)

- In a dramatic turnaround, all investment options ended the quarter with positive returns, ranging from +0.95% (Guaranteed Account) to +34.43% (Emerging Markets Index Fund).
- Many of the hardest hit investments from the first quarter rebounded strongly during the second quarter. Mutual Directions 5 (+20.38%) bounced back from a loss of -10.23% the previous quarter. Likewise, Mutual GlidePath 2045 (+19.53%) and Cohen & Steers Institutional Realty Shares (+29.59%) performed strongly after losing -11.31% and -30.87%, respectively, in the first quarter.
- Year to date, International Emerging Markets Fund has produced a +29.85% return. This is in sharp contrast to calendar year 2008 when emerging markets was one of the worst performing asset categories (the Fund lost 56.40%). Such volatility of returns highlights the added risk inherent in emerging market stock investing.
- 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, 90% have equaled or outperformed their benchmark over that time period.
- Mutual Directions, the series of five risk-based asset allocation models, continues to offer investors the possibility of excess return for incremental levels of added risk. For the quarter, the most aggressive Mutual Directions 5 (+20.38%) outperformed the most conservative Mutual Directions 1 (+3.49%) by 16.89%.

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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.

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At The Close...

As evidenced this year, asset class returns can experience wide fluctuations from quarter to quarter and year-to-year, which often times entices investors to chase performance. As reflected in returns above, the strongest performer in one period is not always the strongest in the next. The statement, "Past performance is not a guarantee of future results" accompanies virtually all performance presentations, and with good reason. Callan continues to recommend prudent asset allocation and risk assessment based on an individual's future needs. Due diligence reviews and an adherence to a well-developed investment policy remain prudent long-term courses for investors and will reduce the likelihood of investing on emotion.

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