



## Second Quarter 2010

### Market & Economic Conditions

| Major Indices                          | 2Q 2010 Returns |
|--|-----------------|
| S&P 500                                | -11.4%          |
| Dow Jones                              | -9.4%           |
| NASDAQ                                 | -12.0%          |
| Russell 1000-Growth                    | -11.8%          |
| Russell 1000-Value                     | -11.1%          |
| Russell 2000                           | -9.9%           |
| MSCI EAFE                              | -14.0%          |
| BarCap Aggregate                       | 3.5%            |
| BarCap 2% Issue Constrained High Yield | -0.1%           |

Equity markets around the world stumbled during the second quarter, ending a winning streak dating to March of 2009. Renewed concerns of the possibility about a double dip recession in the US, combined with fears of a second wave of credit market instability prompted by the heavily indebted countries of southern Europe, sent stock markets down worldwide.

Within the US equity markets, small companies fell less than their larger counterparts while midcaps performed in line with small. (S&P 500: -11.4%, S&P Midcap 400: -9.6%, Russell 2000: -9.9%). From a style perspective, value outperformed growth among large cap issues (Russell 1000 Value: -11.1%, Russell 1000 Growth: -11.7%) yet among small cap issues the reverse was true (Russell 2000 Value: -10.6%, Russell 2000 Growth: -9.2%).

As compared to US equities, developed foreign stocks struggled notably, albeit largely due to the strength of the US dollar versus the euro and the pound. The MSCI EAFE fell 14% in dollar terms with Greece (-40.5%) at the bottom of the heap. Singapore (+0.02%) was the best performing country within EAFE and managed to eke out a gain in the quarter. Contrary to their developed peers, emerging markets equities outperformed both US and developed markets during the quarter (MSCI Emerging Markets: -8.3%). Indonesia (+4.5%) performed best from a country perspective while Hungary (-30.2%) suffered most acutely.

To round out equity performance, securitized real estate was the least impacted equity asset class as REITs continued to improve their collective financial positioning. The NAREIT Equity REIT Index (-4.8%) fell by just half of its US small cap cousins.

Fixed income benchmarks largely earned low single digit results during the quarter. US Treasury issues fell to the lowest levels in recent memory on a yield basis and brought borrowing costs down across the board. The Barclays Capital US Aggregate was the best performing major US financial index in the quarter with a 3.5% rise. High Yield bonds posted only a marginal decline (Barclays Capital 2% Issue Constrained High Yield: -0.1%).

## Mutual of Omaha Retirement Program Product (0.00% Class as of 06/30/10)

- The Bond Index Fund (+3.76%) produced the strongest return for the quarter, followed closely by Metropolitan West Total Return Bond Fund (+3.42%) and PIMCO Total Return Fund (+2.63%).
- Year to date, all of the fixed income options in the product have produced a positive return, ranging from 1.58% (Lifetime Guaranteed Income Account) to 7.29% (Metropolitan West Total Return Bond Fund). Of all the equity options in the product, only Cohen & Steers Institutional Realty Shares (+4.29%) produced a positive return for the first half of the year.
- The 7.29% year to date return of Metropolitan West Total Return Bond Fund represents an impressive 1.95% outperformance of the Barclays Capital Aggregate Bond Index (+5.34%).
- Consistent with the theme of long-term investing, for the actively managed stand-alone domestic equity investment options that have at least a 10-year performance record, 93% have outperformed their benchmark over that time period. For the 5-year period, 80% have outperformed their benchmark.
- 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 one-year period, the most aggressive Mutual Directions 5 (+15.46%) outperformed the most conservative Mutual Directions 1 (+6.25%) by 9.21%.

After a promising start to the year, a dismal second quarter erased all of the first quarter equity gains and more. On a brighter note, bonds provided a safe haven for investors through the first half of the year and the low interest rate environment is allowing homeowners to take advantage of some of the lowest mortgage rates on record. The 4.75% average interest rate nationwide on a 30-year fixed rate mortgage as of July 8th is half of the nationwide average of 9.15% from January 1995. (Source: Freddie Mac) History continues to teach us that you cannot predict what is around the bend. In markets that have experienced extreme swings in performance of both stocks and bonds, allocating one's retirement savings among a properly diversified set of investments made sense long ago and makes sense today.

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