



First Quarter 2011

Market & Economic Conditions

Major Indices	1Q 2011 Returns
S&P 500	5.9%
Dow Jones	7.1%
NASDAQ	4.8%
Russell 1000-Growth	6.0%
Russell 1000-Value	6.5%
Russell 2000	7.9%
MSCI EAFE	3.4%
BarCap Aggregate	0.4%
BarCap 2% Issue Constrained High Yield	3.9%

The year began with consistent and positive equity results from most world markets. From an economic perspective, the recovery remains well-underway in most areas of the U.S. economy. GDP growth remains strong but not overheated. Unemployment has dipped below 9% nationally and nearly two million jobs have been created since the end of the downturn. Corporate profits have grown for eight straight quarters and are approaching the lofty levels reached in the spring of 2007. The housing market appears to be the one area of the economy experiencing another leg of decline. Consumer confidence is also weak, albeit well above the lows in late 2008. A significant part of the weak confidence levels appears to be attributable to sharply rising energy prices. With the political unrest in the Middle East, the spot price of oil is once again rising above \$100/barrel. Even more acutely obvious to consumers is the level of gasoline prices, exceeding \$4/gallon in some places.

Many pundits and market participants feel the current monetary and fiscal policy environment is generating significant risk of inflation in the coming years. However, both headline and core (excluding food and energy) CPI remain quite low (2.2% and 1.1% respectively, through February), and are being held down largely by the weak housing market. Expectations for a robust housing recovery continue to remain elusive and many forecasts are calling for 2011 to be another year of falling prices, high mortgage delinquencies and continued foreclosure activity.

Within the U.S. equity markets, results were strong across the board and the broadly representative S&P 500 rose 5.9%. Growth and value were roughly at parity (Russell 1000 Growth: +6.0% vs. Russell 1000 Value: +6.5%). From a capitalization perspective, performance was inversely related to size as small caps led the way while the largest stocks trailed (Russell 2000: +7.9%, S&P 500: +5.9%). Within the GICS classification of the S&P 500, rising oil prices helped energy stocks perform best with a rise of 17%, while defensive sectors Utilities and Consumer Staples were laggards at 2.8% and 2.5% respectively.

Foreign equity markets also rose to add gains to their strong 2010 advance, but results lagged U.S. returns due in large part to events in Japan and the Middle East. The developed markets performed fairly well outside Japan although, as a whole, EAFE results were well-adrift of U.S. returns (MSCI EAFE: +3.4%). Japan (-4.9%) was by far the worst-performing developed country as the NIKKEI 225 fell by nearly 20% in the days after the earthquake and tsunami. Greece (+15.2%) was the best performing country in the EAFE index, followed closely by Spain (+13.6%) and Italy (+13.7%). Emerging markets struggled early in the quarter but posted a very strong rise in March that led all other equity measures (MSCI Emerging Markets: +2.9%). Unsurprisingly given the political turmoil, Egypt (-23.2%) was far and away the worst performing emerging country while Hungary (+20.2%) led a strong advance in eastern Europe after being the worst performing emerging country last quarter.

After 4Q 2010's sharp reversal in the direction of interest rates, the 1st quarter of 2011 was relatively benign and range-bound. The 10-year Treasury backed up about 15 basis points and traded in a range between 3.2% and 3.7%. As a result of the slight rise in rates, the Barclays Aggregate Bond Index (+0.4%) returned a bit less than its yield level but remained positive for the quarter. Further down the credit quality spectrum, High Yield bonds (Barclays Capital 2% Issue Constrained High Yield: +3.9%) enjoyed another strong quarter as equity market correlation drove narrowing credit spreads.

Mutual of Omaha Retirement Program Product (0.00% Class as of 03/31/11)

- For the quarter, all of the investment options in the product produced a positive return, led by the William Blair Small-Mid Cap Growth I Fund (+10.46%).
- Domestic stocks of smaller companies outperformed their larger counterparts for the quarter, as evidenced by the Small Cap Stock Index Fund (+7.80%) relative to the Stock Market Index Fund (+5.86%).
- The International Developed Countries Fund combines the core/growth style of Artio and the Value approach of Causeway. While both underlying managers have struggled through periods of underperformance, the combination of the two lowers the risk profile and has resulted in the International Developed Countries Fund outperforming the MSCI EAFE Index over each the 1, 3, 5, and 10 year periods.
- Both of the actively managed intermediate-term high quality fixed income investment options (MetWest and PIMCO) outperformed the Barclays Capital Aggregate Bond Index for the quarter. Additionally, they have each outperformed the Index over each the 1, 3, 5 and 10-year periods. Over 3 years, Metropolitan West Total Return Bond Fund has returned 8.75%, outperforming the Index by 3.45%.
- 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, 78% have out-performed 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 (+5.38%) outperformed the most conservative Mutual Directions 1 (+1.57%) by

3.81%. For the one year period, Mutual Directions 5 (+16.56%) outpaced Mutual Directions 1 (+5.54%) by 11.02%.

- Mutual GlidePath, the series of eleven time-based asset allocation models, invest in a diversified mix of asset classes and styles, become increasingly conservative over time and continue along the glidepath for an additional 20 years beyond the target retirement date. For the quarter, the most aggressive Mutual GlidePath 2055 (+5.16%) outperformed the most conservative Mutual GlidePath 2005 (+3.29%) by 1.87%. For the one year period, Mutual GlidePath 2055 (+16.39%) outpaced Mutual GlidePath 2005 (+11.36%) by 5.03%.

The total market capitalization of the U.S. Stock Market was \$16.4 trillion as of 3/31/11, up from a bear market low of \$8.0 trillion on 3/9/09. Despite the strong gains across all major asset classes over the last two years, the market and economic environment remains cloudy. Concerns over unemployment, housing, national debt, potential inflation, among others continue to weigh on investors minds. Now, as always, it remains prudent to consider an investor's ability and willingness to take risk while developing a long-term diversified investment allocation.

The Performance Quarterly was prepared by Mutual of Omaha (Mutual) in conjunction with Callan Associates, Inc.(CAI). Neither Mutual nor CAI assumes any responsibility for the accuracy or completeness of the information provided or the methodologies employed. The information provided is not a recommendation or investment advice on the part of Mutual, CAI or their representatives.

Investment options are offered through a group variable annuity contract (Forms 902-GAQC-09 or 902-GAQC-09(OR) or 902-GAQC-09(CT) or 901-GAQC-07) underwritten by United of Omaha Life Insurance Company, Omaha, NE 68175 accepts full responsibility for all of United's contractual obligations under the contract but does not guarantee any contributions or investment returns except as to the Guaranteed Account and the Lifetime Guaranteed Income Account as provided under the contract. Neither United of Omaha Life Insurance Company nor its representatives or affiliates offers investment advice in connection with the contract.