



Second Quarter 2011

Market & Economic Conditions

	2Q, '11 Returns	YTD 2011
S&P 500	0.1%	6.0%
Dow Jones	1.4%	8.6%
Russell 1000-Growth	0.8%	6.8%
Russell 1000-Value	-0.5%	5.9%
Russell 2000	-1.6%	6.2%
MSCI EAFE	1.6%	5.0%
BarCap Aggregate	2.3%	2.7%
BarCap 2% Issue Constrained High Yield	1.1%	5.0%
BarCap 2% Issue Constrained High Yield	3.2%	14.9%

Equities rallied early in the quarter, building on the roughly 6% rise from the start of 2011. Things turned bleak from early May through late June as stocks fell sharply on weak economic news and concerns over the expanding debt and austerity-related unrest in Greece. As the quarter closed, the Greek government passed significant austerity measures enabling \$17 billion in rescue funds to come in and stave off a default. Stocks rose notably in the final week of the quarter to eke out small gains for the period. Developed and emerging foreign equities followed a similar pattern. Fixed income index returns were positive for the quarter, with municipal bonds faring especially well. Interest rates fell for most of the quarter. The looming sunset of QE2 drove the 10-year US Treasury down from 3.5% in early April to below 3% in mid-June – a six-month low – before closing the quarter at 3.15%. REITs were largely flat for the quarter and returns for commodities were mixed. Precious metals enjoyed small gains while agriculture and energy fell sharply, dragging the S&P GSCI to a loss for the quarter.

The U.S. economy sputtered in the 2nd quarter causing investors to shun equities in favor of fixed income securities. Headlines on two topics of great importance to Main Street, unemployment and housing, were largely negative during the quarter. Job growth remained anemic and the jobs report in early June showed a reversal of the recent declines in the unemployment rate. Joblessness crept slightly higher to 9.1%; and while jobs are still being created, the very slow pace of growth is below that which is necessary to absorb new entrants to the labor

force. In addition, the residential housing market, debate over the federal debt limit and future inflation continued to concern market participants

Contrary to the seemingly ominous news on Main Street and in political capitals around the world, Corporate America appears to be reasonably stable. Corporate profits are at the all-time high levels of 2007 and margins remain elevated as the severe cost cutting of 2008-2009 has not been wholly reversed through new hiring and capital expenditures. Contrary to the debt crises at the sovereign level, many corporations have taken advantage of historically low rates to access debt markets at very favorable terms. Issuance of 100-year bonds made headlines as did several “Web 2.0” IPOs such as LinkedIn, Groupon and potentially Facebook.

Within the U.S. equity markets, results were mixed as the late-June rally brought most indices back to roughly flat for the quarter. The broadly representative S&P 500 rose 0.10%. Growth outperformed value (Russell 1000 Growth: +0.8% vs. Russell 1000 Value: -0.5%). From a capitalization perspective, large cap stocks outperformed smaller stocks (Russell 2000: -1.6%, S&P 500: +0.1%). Within the GICS classification of the S&P 500, falling oil prices dragged Energy stocks down by 5% and weakness in the banking industry pulled Financial stocks down by more than 6%. Defensive sectors such as Health Care, Consumer Staples, and Utilities were the best performers among the S&P sectors with mid-single digit gains.

Developed foreign equity markets performed slightly better than their US counterparts while emerging market equities trailed (MSCI EAFE: +1.6%, MSCI Emerging Markets: -1.0%). Despite the 11th hour parliamentary votes that paved the way for Greece to receive another round of bailout funding, its equity market was the worst performing country in the EAFE index (MSCI Greece: -16.5%) while New Zealand (+11.3%) was the strongest performer in the index. Emerging markets struggled with the market volatility and rising inflation fears and could not keep up with developed markets. South American markets of Peru and Chile bookended the country performance in the emerging world (MSCI Peru: -15.2%, MSCI Chile: +8.8%).

To round out equity performance, securitized real estate performed better than most broad equity markets for the quarter due to strong returns in April and May. The NAREIT Equity Index rose 2.9% in the quarter.

The 2nd quarter saw a sharp drop in interest rates in spite of a reversal in the last few days of the quarter. After opening in April at around 3.5%, the 10-year US Treasury yield fell to as low as 2.88% before closing around 3.15%. As a result of the drop in rates, the Barclays Capital Aggregate Bond Index rose 2.3%. Further down the credit quality spectrum, high yield bonds (Barclays Capital 2% Issue Constrained High Yield: +1.1%) trailed investment grade issues as risk aversion resurfaced.

Mutual of Omaha Retirement Program Product (0.00% Class as of 06/30/11)

- For the quarter, Cohen & Steers Institutional Realty Shares (+3.69%) turned in the strongest performance.
- Although near term results have been mixed, all investment options in the product have turned in positive results for the trailing 1-year period, with Lord Abbett Developing Growth Fund (+53.68%) leading the way.
- Domestic stocks of smaller companies underperformed their larger counterparts for the quarter, as evidenced by the Small Cap Stock Index Fund (-1.67%) relative to the Stock Market Index Fund (+0.00%).
- 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, 83% have 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 one year period, the most aggressive Mutual Directions 5 (+31.57%) outpaced the most conservative Mutual Directions 1 (+7.12%) by 24.45%.
- 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 (+0.16%) underperformed the most conservative Mutual GlidePath 2005 (+1.37%) by 1.21%. For the one year period, Mutual GlidePath 2055 (+29.15%) outpaced Mutual GlidePath 2005 (+17.65%) by 11.50%.
- Vanguard® Target Retirement Funds are a series of ten time-based asset allocation models that invest in a diversified mix of asset classes and styles and become increasingly conservative over time. The portfolio allocation should resemble that of the Vanguard Target Retirement Income Fund approximately seven years after the target retirement date. For the quarter, the most aggressive Vanguard Target Retirement 2055 Fund (+0.32%) underperformed the most conservative Vanguard Target Retirement Income Fund (+1.66%) by 1.34%. For the one year period, Vanguard Target Retirement 2050 Fund (+28.46%) outpaced Vanguard Target Retirement Income Fund (+11.92%) by 16.54%.

The global rally in equity markets is now over two years old and based on classic valuation measures, equities appear reasonably valued on an historical basis. The S&P is trading at about 13.5 times forward earnings; well below the 15-year average of 17 times. Despite strong results across asset classes since the beginning of 2009, the global economic environment remains cloudy. Government deficits threaten to strain growth and recession-fighting monetary and fiscal policy may well spur inflation. Acknowledging these risks, Callan continues to recommend prudent asset allocation and risk assessment based on future capital needs. Due diligence reviews and an adherence to a well-developed investment policy remain a prudent long-term course for investors.

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.