

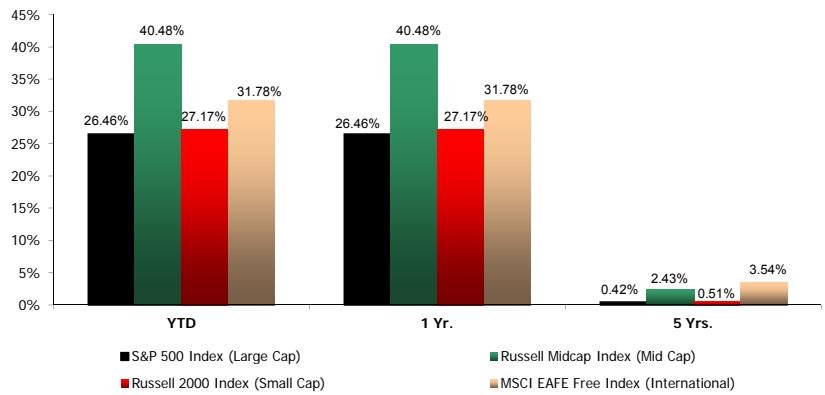
# State Farm® Market Recap

As of December 31, 2009

## Equities Recap

- Global equity markets closed out the year on a positive note by posting solid gains during December.
- In the U.S., small cap stocks, as represented by the Russell 2000 Index, led all domestic equity markets higher during December with a gain of 8.05%. Mid-cap stocks (as represented by the Russell Midcap Index) and large cap stocks (as represented by the S&P 500 Index) also produced gains of 5.70% and 1.93% for the month, respectively. During the month, growth stocks performed better than value stocks across all market capitalizations, with the exception of Microcap shares.
- International stocks (as measured by the MSCI EAFE Free Index) also advanced, gaining 1.44% for the month; while emerging markets stocks (as measured by the MSCI Emerging Markets Index) also finished higher, gaining 3.95% for the month and closed out the year up 78.51%.

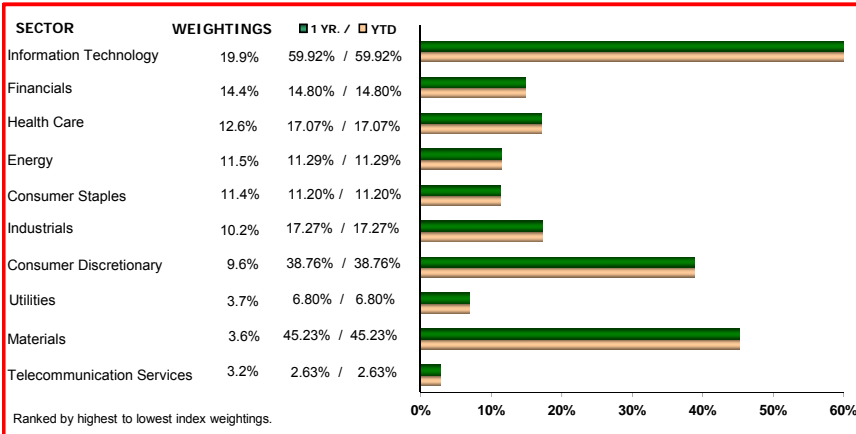
## Equities Market Performance Total Returns for Periods Ended December 31, 2009



## U.S. Stocks

- U.S. stocks climbed higher during the month on expectations of broadly improved corporate earnings and as consumer spending during the holiday season improved over last year's dismal results.
- Seven of the ten industry sectors within the S&P 500 Index posted positive results for the month with Information Technology and Utilities stocks leading the way, gaining 5.6% and 5.2%, respectively. Within the Technology sector, Microsoft, Google, Oracle, Apple, Intel and IBM were the top six contributors to the S&P 500 Index. Consumer Discretionary stocks also outpaced the broader market as retail sales grew 1.3% and home-oriented products, such as furnishings and appliances, were in high demand.
- The Financials sector declined -1.6% during the month as investors assessed a return to "normalized earnings." The Energy sector also ended the month in negative territory, declining -1.0% as Exxon Mobil, the world's largest company, dropped -7%. The Consumer Staples sector was also weak, declining -0.7% for the month.

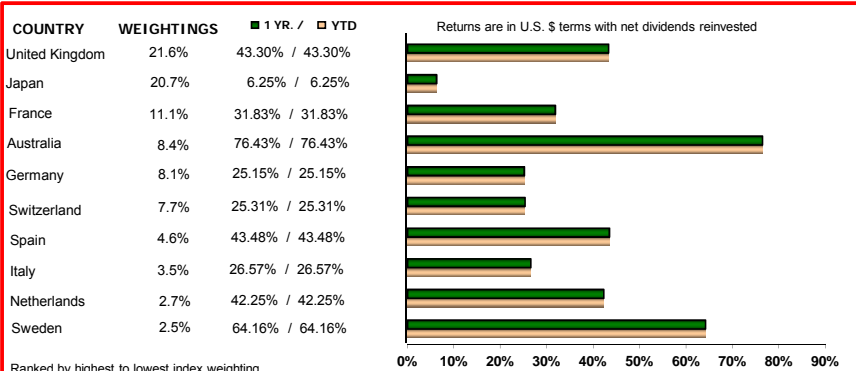
## Performance of S&P 500 Index Price Returns for Periods Ended December 31, 2009



## Global Equities

- European equity markets posted gains of 1.5% in U.S. dollar terms during December amid further signs of a global rebound. Among European markets, Ireland and Norway gained the most during the month, advancing 5.1% and 5.0%, respectively. Greece was the weakest European equity market, posting a loss of -9.2% for the month over continuing fears of the scale of the country's debts and the stability of its banking sector. From a currency perspective, the euro depreciated against the U.S. dollar during the month, reversing a year-long strengthening trend.
- Japanese stocks gained 0.8% in U.S. dollar terms on signs of an improving economy and a pullback in the yen versus the U.S. dollar for the month. The Japanese yen depreciated 8% against the U.S. dollar during the month, helping to relieve pressure on export-focused stocks. Japan's industrial production increased for the ninth straight month and exports to Asia grew for the first time in a year.

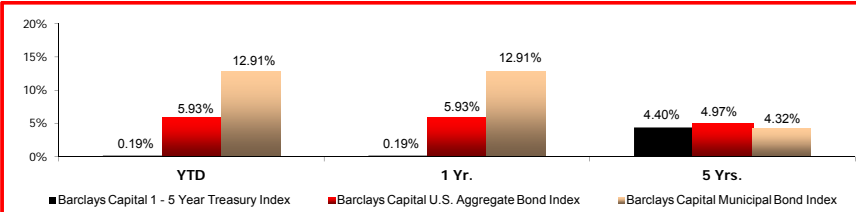
## Performance of MSCI EAFE Index Total Returns for Periods Ended December 31, 2009



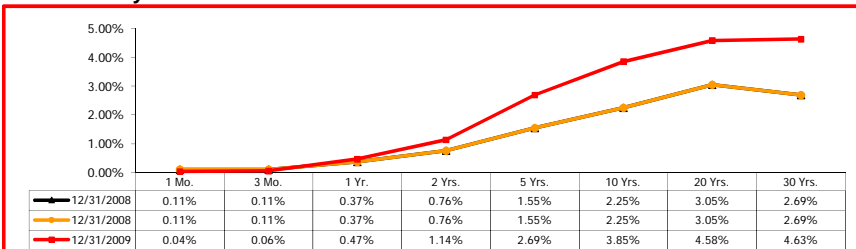
## Fixed Income Recap

- In the U.S. fixed income markets, bond prices mostly declined during the month as investors assessed the possibility that the Federal Reserve would raise short-term interest rates earlier than expected given signs of an improving economy.
- Long-term U.S. Treasury bonds, which are particularly sensitive to changes in inflation and interest rate expectations, performed poorly. Most other sectors posted smaller losses, but high-yield issues and municipal bonds escaped the broad downturn and posted gains during the month. In December, the Barclays Capital U.S. Aggregate Bond Index declined nearly -1.6% while the Barclays Capital High Yield Index climbed 3.3%. Municipal bonds also posted positive results in November as the Barclays Capital Municipal Bond Index climbed by over 0.3%.
- For the month, yields increased across the U.S. Treasury yield curve on maturities of 1-year or more. Yields on longer-term bonds rose more than shorter- and intermediate-term issues. Benchmark short-term Treasury interest rates (1-month and 3-month maturities) still remained anchored by the Fed's near-zero interest rate policy.

## U.S. Bond Market Performance Total Returns for Periods Ended December 31, 2009



## U.S. Treasury Yield Curves



## Market Commentary - Winter 2009

Reflecting on the trials and tribulations of 2009 reminds us somewhat of the phrase "sleeping like a baby." Here we're not referring to anything peaceful, of course; instead something more along the lines of waking every few hours crying and finding solace only in a bottle! With volatility resurrected in a big way in 2008 (albeit in a one-way declining direction), we witnessed two volatility extremes in 2009 – one starting off negative and then a dramatic swing to the positive the last three-quarters of the year.

Volatility wreaks havoc on investor psychology, their investment portfolio returns, and the assumptions used in the long-term investment planning process. For instance, consider an individual working with their registered State Farm Agent to determine their long-term retirement goals, their risk tolerance, and subsequently their savings needs to achieve that retirement goal. Take a look at the impact of volatility on the change in "long-term" market returns over very short three month periods of time.

<b>S&amp;P 500 Index</b>	<b>May 2009</b>	<b>August 2009</b>	<b>November 2009</b>	
3-year average annual return ending...	7.57%	3.66%	-8.67%	
	<b>July 2008</b>	<b>October 2008</b>	<b>January 2009</b>	
5-year average annual return ending...	7.03%	0.26%	-4.24%	Source: Morningstar, Inc.

If these are "averages," I'd hate to see what's considered normal! Still not convinced? Let's look even longer at 10-year rates of return. Here, it does take a bit more time to see dramatic change but surprisingly still not much. The 10-year average annual return of the S&P 500 Index ending January 2008 was 5.14%; just 12 months later the 10-year average return dropped to -2.65% for the period ending January 2009.

Therein lies the problem - average annual returns are anything but "average." Getting worked up over the investment results of your fund or investment portfolio for any given period of time is completely arbitrary and somewhat nonsensical. It will change. And if you believe like we do that volatility in financial markets are the norm and not the exception, sit back and ask yourself the following:

- \* How risky and volatile is my investment/portfolio relative to the market?
- \* Is that consistent with assumptions needed to meet my long-term savings goals?
- \* Am I comfortable with this?

At State Farm, our equity investment teams tend to favor high quality companies with strong balance sheets while our fixed income team focuses on high credit quality investments. For all, understanding and avoiding unnecessary risk (or risk that you're not being adequately compensated for) is a key part of the investment equation. During periods like 2009 where the more extreme the risk - the higher the reward, high quality investment orientations have generally lagged. When that has happened in the past, just like today, we're fine with that. As they say in Central Illinois, when you don't like the weather currently, just sit back and wait – it will change. We feel the same about financial markets – investment quality will once again reign supreme.

---

*The performance data quoted represents past performance and does not guarantee future results.*

It is not possible to invest directly in an index.

It is important to note that there is market risk involved when investing in mutual funds, including possible loss of principal.

It is important to note all bonds are subject to interest rate risk, including those issued by the U.S. Government. There is risk that the bonds a fund holds may decline in value due to an increase in interest rates.

The stocks of small companies are more volatile than the stocks of larger, more established companies.

Investing in foreign securities involves risks not normally associated with investing in the U.S. including higher trading and custody costs, less stringent accounting, legal and reporting practices, potential for political and economic instability, and the fluctuation and potential regulation of currency exchange and exchange rates.

Investing in emerging markets involves risks not normally associated with investing in developed countries including, but not limited to, greater market volatility, lower trading volume, political and economic instability, greater risk of market shut down and more governmental limitations on foreign investment policy than those typically found in a developed country.

The Dow Jones Industrial Average is an unmanaged average of 30 actively traded stocks (primarily industrial) and assumes reinvestment of dividends.

The NASDAQ Composite is an unmanaged market capitalization-weighted index that is designed to represent the performance of the National Market System, which includes over 5,000 stocks traded only over-the-counter and not on an exchange. Its return is based on price change only and does not include income.

The S&P 500 Index tracks the common stock performance of large U.S. companies among various industries. In total, the S&P 500 is comprised of 500 common stocks.

The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap Index represents approximately 31% of the total market capitalization of the Russell 1000 companies.

The Russell 2000 Index tracks the common stock performance of the 2,000 smallest U.S. companies in the Russell 3000 Index, which represents approximately 10% of the total capitalization of the Russell 3000 Index.

The Morgan Stanley Capital International Europe, Australasia and Far East Free (MSCI EAFE Free) Index currently measures the performance of stock markets of Europe, Australia, New Zealand, and the Far East and takes into account local market restrictions on share ownership by foreigners. EAFE Free is meant to reflect actual opportunities for foreign investors in a local market. Returns are measured in U.S. dollars.

The MSCI Emerging Markets Index is a capitalization-weighted index of stocks from 26 emerging markets that only includes issues that may be traded by foreign investors. The reported returns reflect equities priced in US dollars and do not include the effects of reinvested dividends.

The Nikkei 225 Index is a price-weighted index comprised of Japan's top 225 blue-chip companies on the Tokyo Stock Exchange.

The Barclays Capital 1-5 Year U.S. Treasury Index measures the performance of short-term U.S. Treasury Securities maturing within one to five years. Returns of the Barclays Capital 1-5 Year U.S. Treasury Index do not reflect any deductions for taxes.

The Barclays Capital U.S. Aggregate Bond Index represents debt securities in the U.S. investment grade fixed rate bond market, including government and corporate debt securities, mortgage pass-through debt securities and asset-backed debt securities with maturities greater than one year.

The Barclays Capital Municipal Bond Index is an unmanaged index representative of the tax-exempt bond market and is made up of investment grade municipal bonds issued after December 31, 1990, having a remaining maturity of at least one year.

The Barclays Capital High Yield Index includes all fixed income securities having a maximum quality rating from Moody's Investor Service of Ba1, a minimum amount outstanding of \$100 million, and at least one year to maturity.

It is important to note that current and future portfolio holdings are subject to risk.

This recap has been prepared by State Farm VP Management Corp. for informational purposes. The information contained herein has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. Any opinions discussed herein reflect our judgment as of the date of publication and are subject to change without notice. This material should not be considered a recommendation to purchase or sell any security.

State Farm Mutual Funds® are available through prospectus by registered representatives of State Farm VP Management Corp., One State Farm Plaza, Bloomington, Illinois 61710, 1-800-447-4930. Please read the Prospectus and consider the investment objectives, risks, charges and expenses and other information it contains about State Farm Mutual Funds carefully before investing.

AP2010/01/0041



State Farm VP Management Corp.,  
One State Farm Plaza, Bloomington, IL 61710-0001,  
1-800-447-4930