

**LifePath Philosophy**

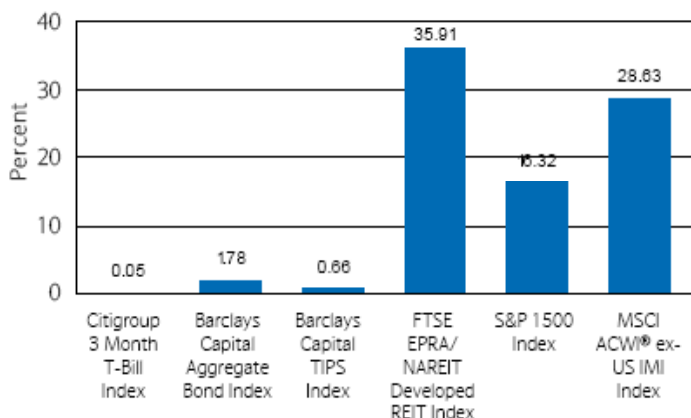
LifePath Portfolios offer investors a comprehensive asset allocation strategy, a simple yet sophisticated way to invest for retirement. Simple, because the investor makes an initial investment decision. Sophisticated, because each LifePath Portfolio follows an investment strategy that gradually becomes more conservative as the year in the portfolio's name approaches, to take into account the investor's diminishing investment time horizon and thus reduced risk appetite.

**Performance Overview**

The equity markets globally rallied in Q2, a sharp reversal from the beginning of the year.

**FIGURE 1**

Index returns 3/31/09 – 6/30/09



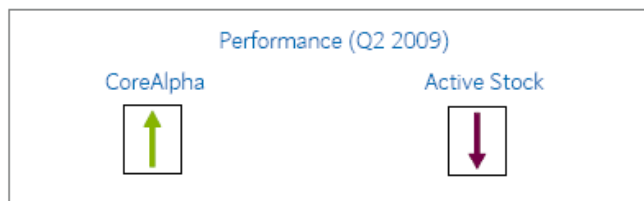
As of 6/30/09 Source: MSCI®, BGI.

*Index returns are for illustrative purposes only and do not represent actual fund performance. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.*

Broad U.S. equity markets as represented by the S&P 1500 Index rose by 16.32% in the second quarter (see Figure 1). However, the U.S. markets trailed international markets significantly as the MSCI ACWI ex-US Investable Market Index advanced 28.63% in the same time period. Global real estate, as represented by the FTSE EPRA/NAREIT Developed REIT Index, moved up sharply ending the quarter up 35.91% as performance reversed sharply from 2008 and Q1 2009.

Bond markets were relatively flat for the quarter. The broad based Barclays Capital Aggregate Index returned 1.78% in the second quarter. The Barclays Capital TIPS Index consisting of inflation-protected bonds issued by the U.S. government was up 0.66%.

The performance of the LifePath Portfolios is primarily explained by the asset allocation of each portfolio. As a result of strong equity markets, the LifePath Portfolios delivered strong quarterly performance. A secondary source of performance is security selection, via enhanced index strategies, within U.S. large cap equities (Active Stock Master Portfolio) and U.S. bonds (CoreAlpha Bond Master Portfolio). These strategies have the objective to add extra return above the index while maintaining broad diversification and remaining style neutral relative to their respective benchmarks.



The Active Stock Master Portfolio faced some headwind in the second quarter. However, as investor risk appetite became more tempered in June, the investment insights utilized by the strategy were rewarded by the market.

The CoreAlpha Bond Master Portfolio was successful in adding alpha, outperforming the Barclays Capital Aggregate Index for the three-month period. The Master Portfolio benefited from the credit rally as well as security selection within credits.

The remaining asset class exposures are obtained by utilizing iShares exchange traded funds, which have the objective to track a specific index. The shorter dated LifePath Portfolios (e.g. Income Portfolio, 2010 Portfolio) outperformed their respective custom benchmarks in the second quarter given the relative performance of the CoreAlpha Bond Master Portfolio. The longer dated LifePath Portfolios met or trailed their benchmarks as a result of weaker relative Active Stock Master Portfolio performance. The custom benchmarks consist of unmanaged indices and will therefore not incur expenses or training costs, as opposed to the actual LifePath Portfolios.

**Market Review**

Tentative signs that the economy may be bottoming continued to emerge in Q2, particularly within the manufacturing and housing arenas. One of the more promising signals was the recent release of the Institute for Supply Management's manufacturing index, which rose to 44.8 in June from 42.8 in May. Considered by many to be one of the most important **(continued on next page)**

July 10, 2009  
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Market Strategist & Associate of Barclays Global Investors

leading economic indicators, this index indicated that the recession in the manufacturing sector continued to moderate last month. Though still contracting (readings below 50 indicate contraction), the reading was the highest since August 2008. Separately, home prices continued to fall, but at a slower rate. The S&P/Case-Shiller Home Price Composite Index of twenty metro markets fell 0.6% in April, the smallest monthly decline since late 2007. Home prices are down 18.1% from one year ago and roughly 30% lower than their peak in May 2006.

Meanwhile, this relatively good news was tempered by the ADP Employer Services report that the private sector lost nearly 473,000 jobs in June on the back of a 485,000 loss in May. Though unemployment is widely expected to trend higher in coming months, it has taken a toll on consumer sentiment. The Conference Board's consumer confidence index suffered a setback in June from strong gains in the previous three months. Overall, the index declined to 49.3 from a level of 54.9 in May. However, the index is up sharply from its February low (25.3) and consumers' outlook as become considerably more upbeat. Notably, the percentage of respondents that expected business conditions to improve is up sharply from the start of the year and at its highest level since 2004.

TIPS sharply outperformed nominal U.S. Treasuries. Though expectations for inflation remain muted, TIPS have gained favor as increasing commodity prices and signs of bottoming in the economy have fueled demand for inflation-protected securities.

Equity markets continued their rally in Q2 as investors' risk appetite increased significantly. The S&P 500 Index was up 15.93%, porting the best quarter of returns since 1998. Among international equity markets, emerging market countries outperformed developed markets by nearly 10%. Broad global equity markets as measured by the ACWI ex-U.S. IMI Index were up 28.63% for the quarter.

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*The Strategy Commentary discusses topics with respect to the LifePath Master Portfolios of Master Investment Portfolio (MIP), not the State Farm LifePath Funds. It is not possible for individual investors to directly invest in the LifePath Master Portfolios or MIP. The discussion may not be indicative of the State Farm LifePath Funds or their performance. Each State Farm LifePath Fund invests all of its assets in a corresponding LifePath Master Portfolio of MIP. State Farm Investment Management Corp. (SFIMC) is the investment adviser to the State Farm LifePath Funds. State Farm VP Management Corp. (SFVPMC), 1 State Farm Plaza, Bloomington, IL 61710, is the distributor of the State Farm LifePath Funds.*

*Barclays Global Fund Advisors (BGFA) provides investment advisory services to the LifePath Master Portfolios. Barclays Global Investors Services (BGIS) provides marketing support to the LifePath Master Portfolios. BGFA and BGIS are wholly owned subsidiaries of Barclays Global Investors, N.A. (BGI). Neither BGI or its affiliates are affiliated with any State Farm entity. BGI is located at 45 Fremont Street, San Francisco, CA 94105.*

*Any opinions expressed in this publication reflect the author's judgment at this date and are subject to change. The information is not intended to provide investment advice.*

**There are risks involved with investing, including possible loss of principal.** In addition to the normal risks associated with equity investing, international investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Risk controls, asset allocation models, and proprietary technology do not promise any level of performance or guarantee against loss of principal. **Past performance is no guarantee of future results.** Diversification may not protect against market risk.

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.

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.

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The Citigroup 3 Month T-Bill Index is an average of the last 3-month Treasury bill issues (excluding the current month-end bill).

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 TIPS Index measures the performance of the US Treasury Inflation-Protected Securities (TIPS) market.

The FTSE EPRA/NAREIT Developed REIT Index is designed to provide investors with the diversification that real estate offers due to its low correlation with other asset classes, along with sufficient liquidity to gain access to that asset class easily. It is a subset of the FTSE EPRA/NAREIT Developed Index, separating the existing constituents into both Real Estate Investment Trust (REIT) and Non-REIT indices thereby providing investors with additional granularity in the market place.

The S&P 1500 Index is a stock market index of U.S. stocks. It includes all stocks in the large cap S&P 500 Index, the mid cap S&P 400 Index, and the small cap S&P 600 Index.

The MSCI ACWI ex-US IMI Index measures the performance of the stock market in the following countries: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Italy, Japan, Malaysia, Netherlands, New Zealand, Norway, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

LifePath Funds are target-date portfolios that provide a diversified exposure to stocks, bonds, and/or cash for those investors who have a specific date in mind (in this case, years 2010, 2020, 2030, 2040, or 2050) for retirement or another goal. The target date is the approximate date when investors plan to start withdrawing assets. The investment objectives of each fund are adjusted over time to become more conservative as the target date approaches. The principal value of the fund(s) is not guaranteed at any time, including at the target date.

*For more complete information about State Farm LifePath Funds, request a prospectus by calling 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. **Securities are not insured by the FDIC, are not guaranteed by any bank, and are subject to investment risk, including possible loss of principal.***