TRANSAMERICA®

Portfolio Manager Insights

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The outlook for global dividends

William (Bill) Andersen, portfolio manager for Transamerica Income & Growth, and Jeffrey (Jeff) Middleswart, chief financial analyst for Ranger International, LP, discuss their outlook for global dividends. They provide insight into their investment approach and share opinions on some of the risks and opportunities they see in today's market.

Do you think dividend-paying stocks are still attractive? Or have they run their course?

The U.S. economy is improving and so are corporate earnings. The equity market is at record highs and dividend-paying stocks have had a great run over the past five years especially in the U.S. as the S&P Dividend Aristocrats have outpaced the S&P 500® for each of the 1-, 3- and 5-year periods.

Dividends have historically been a key component of the total return for equities and we do not recommend abandoning them to chase short-term performance. In fact, we continue to find attractively-valued high-quality companies with well-above market yields. And for cautious investors who find themselves under-invested in equities, we think dividend-paying stocks can help bridge the gap by providing equity exposure with lower market risk.

What about corporate earnings?

As far as corporate earnings driving stock prices this year, we believe it is important to note that the majority of last year's returns were the result of expanding price-earnings multiples (higher valuations). While possible, we think it is unlikely that U.S. stocks will enjoy the same good fortune this year and experience a similar leap in valuations. In fact, with U.S. equity valuations appearing somewhat stretched based on cyclically-adjusted price-earnings (CAPE) ratios, we have found non-U.S. yields and valuations increasingly attractive over the past 12 months, and have increased our international exposure.

RANGER INTERNATIONAL

William R. Andersen, CFA
Senior Portfolio Manager
and Chief Investment Officer

William Andersen is a founding principal of Ranger International (Ranger) and serves as the chief investment officer and senior portfolio manager of the global and international portfolios, a position he has held from the inception date of each portfolio. Prior to joining Ranger, Mr. Andersen was a portfolio manager and chief investment officer within the international division of Driehaus Capital Management. Mr. Andersen earned a BA in economics from Stanford University and an MBA from the University of Chicago. In addition, Mr. Andersen holds the designation of Chartered Financial Analyst (CFA).

Jeffery Middleswart
Chief Financial Analyst

Jeffery Middleswart joined Ranger International in 2011 and is senior analyst for Ranger International's global income and growth strategies. Mr. Middleswart is also principal and president of Behind the Numbers, LLC, a provider of forensic accounting-based institutional research for institutional clients. He has 21 years of investment industry experience. Mr. Middleswart earned a BBA in finance from Texas Christian University.

Ranger International Management, LP

Ranger International Management, LP is a boutique, research driven investment manager specializing in global income and growth, international and global equity strategies. Ranger implements a disciplined, bottom-up, fundamental research driven security selection process that seeks to identify stable, quality domestic and international companies that may be purchased at attractive valuations.

Not insured by FDIC or any federal government agency. May lose value.
Not a deposit of or guaranteed by any bank, bank affiliate, or credit union.

The bottom line is that we look for companies with healthy earnings and cash flow growth that we think could translate into higher dividends. We are less concerned with whether or not non-dividend-paying companies outperform over the next six or 18 months than whether fund investors will see higher dividends year-after-year. Over time, we believe those higher dividends will be reflected in higher stock prices.

What impact has the Federal Reserve (Fed) had on your investment decisions?

We focus mostly on security selection, but any strategy with an income component needs to take interest rates into consideration. In late 2012, we anticipated the Fed would begin winding down its emergency bond-buying program and so we began adjusting our portfolios accordingly. Last year, we reduced our exposure to more leveraged companies, including mortgage real estate investment trusts (MREITs), banks and utilities to prepare for higher interest rates. We also increased our exposure to more economically-sensitive companies that we thought should benefit in an improving economy—a precondition for Fed tapering.

We anticipate low to moderate inflation for at least the next 3–5 years.

Currently, evidence suggests short-term interest rates will remain in check and we anticipate low to moderate inflation for at least the next 3–5 years. With 10-year Treasury yields well below 3%, the bond market seems to agree. Eventually, inflation will probably increase. When that happens, it will be better to have income from dividends, which represent a portion of a company's growing earnings, than income from bond coupons, which lose purchasing power during inflationary times.

Figure 1

10-year Treasury yields

Source: Federal Reserve Board. Data as of February 28, 2014.

In addition, many corporations and homeowners have already refinanced, which should act as a brake on new debt issuance. Also, there is little commodity price inflation, state and federal deficits are shrinking, and large traditional bond buyers are competing for shrinking supply.

Even if inflation does tick higher than expected, we believe we should be able to limit the loss in purchasing power from inflation by seeking companies we think have the potential to increase their dividends.

How do overseas valuations compare with those in the U.S.?

Right now, we think European stocks are generally offering higher yields and lower valuations. Europe has been slower to recover from the global recession than the U.S. due to the euro crisis and the region's propensity toward austerity.

Emerging market stocks also appear especially cheap given their recent sell-off. While it may be tempting to look at emerging markets as a whole, we believe each region/country/company must be considered based on its own merits. For example, exporters of commodities have been challenged by falling prices, while importers are benefiting. These problems have been compounded in nations such as Argentina and Venezuela where government policies are placing enormous pressure on the local currencies, which causes inflation.

Although we do invest in some companies that operate in emerging markets, it is largely a function of having identified specific opportunities as a result of our bottom-up research rather than a play on a particular market or currency. As a general rule, we don't actively pursue many emerging market opportunities as we find few can offer the quality and yield we typically demand from our investments.

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Figure 2

Average regional dividend yields by sector

	U.S.	Emerging markets	Asia Pacific	Australia	Europe	UK	Japan	China
Basic materials	**2.05**	3.29	3.41	3.27	3.17	3.20	1.18	4.72
Consumer goods	**2.42**	1.50	1.60	4.99	2.84	3.11	2.16	1.38
Consumer services	**1.35**	1.43	2.14	2.80	2.53	2.80	1.34	1.22
Financials	**1.45**	3.88	4.15	5.05	2.63	2.75	0.86	4.65
Health care	**1.57**	0.86	1.33	2.04	3.69	3.80	1.52	0.93
Industrials	**1.85**	1.80	1.90	3.77	2.23	2.17	2.06	2.10
Oil & gas	**2.11**	3.77	3.96	3.41	4.25	4.41	N/A	4.38
Technology	**1.53**	0.39	0.34	3.46	0.78	1.09	0.88	0.83
Telecommunications	4.88	5.09	4.31	5.39	4.99	3.60	1.48	N/A
Utilities	3.72	2.69	3.08	4.61	5.53	5.14	1.75	3.57
All sectors	1.84	3.03	3.24	3.98	3.15	3.36	1.86	3.95

Yields > 3%

Source: Bloomberg. Data as of February 28, 2014. Yields for U.S. stocks are represented by the S&P 500®; yields for emerging markets by the S&P/Citi BMI Emerging Markets Index; yields for Asia-Pacific by the Bloomberg Asia/Pacific World Index; yields for Australia by the S&P/ASX 200 Index; yields for Europe by the Bloomberg European 500, yields for the UK by the FTSE 100 Index, yields for China by the Shanghai Composite Index, and yields for Japan by the Topix. The indices are unmanaged and it is not possible to invest directly in an index. **Past performance does not guarantee future results.**

Figure 2 shows that there may be greater potential for higher-yielding and more diversified income opportunities outside the U.S. With a global dividend strategy, investors can benefit from regional diversification while also increasing the breadth of sector diversification. However, chasing yield is often not the best approach to finding dividend-winners and may in fact do more harm than good. Instead, we prefer to take a longer view and focus on quality companies that we think can support future dividend growth. Often these companies are not the ones with the highest yields.

What are your thoughts on recent trends in yields and payout ratios?

We see a trend of more companies paying dividends and more that are willing to increase their dividends.

However, as a general rule, compared to foreign companies, U.S. companies prefer to buy-back stock with excess cash rather than ratchet up payout ratios, sometimes even going so far as to issue debt to fund share repurchases. While we are still finding plenty of domestic stocks that meet our investment criteria with well-above market yields and high potential for dividend growth, we are increasingly finding high-quality foreign stocks with lower valuations and higher yields that are just as, if not more, compelling.

What metrics do you use to evaluate investments and why?

The payout ratio is perhaps the most common metric used to evaluate dividend-paying stocks. However, we believe a more comprehensive approach is called for when it comes to determining dividend sustainability.

At Ranger, we use a four-pillar approach to investing. We specifically look for investments that have:

1) Above market yield

2) Quality

3) Financial strength

4) Attractive valuation

First, we screen for above-market yields. Currently we require yields in excess of 4%. Then we filter for quality by looking at companies that have solid, recurring revenues and attractive returns on invested capital.

In addition, companies must show they have the financial strength to be able to adequately support growth and generate enough cash flow to cover the current dividend, while also exhibiting the potential for future dividend growth. We look for companies increasing cash flows by growing revenues rather than paring back necessary spending. We believe solid returns on reinvested capital can often enable a company to grow its dividend. Companies must also show that they have ample interest coverage and manageable debt levels. We avoid situations where temporary fixes to working capital may exaggerate otherwise weak cash flows, or where pension obligations could pose a threat to existing dividend coverage.

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An attractive valuation is the final component of our strategy, which we measure based on metrics such as the price-earnings ratio. While we like a good bargain as much as the next guy, we believe an investment is only a good value if its dividends are sustainable, which reinforces our commitment to quality and financial strength.

When a lot of investors think of dividends, they think of sleepy and sluggish companies compared with growth companies. Do you think growth potential and income are mutually exclusive?

No. Many of the best growth companies are in fact regular dividend payers. Consider that most companies trading on the major exchanges have been public for years, and in some cases, decades. These are not companies fresh off an IPO (initial public offering) like Twitter or Facebook. But these are mature companies, for which

a dividend is a sign of strength. We firmly believe companies that can fund internal growth and pay a dividend to shareholders should be applauded, not avoided.

We do not believe investors have to choose between 6% yields and 1% growth or 1% yields with 6% growth. Why settle for just yield or just growth? Why not have both?

We're finding opportunity in U.S. energy infrastructure companies, which let us participate in a booming growth industry with robust yields in the 4–8% range.

Where do you see opportunities for dividend investors? Which sectors/regions/countries? And why?

The world is a big place. We see plenty of opportunities especially for investors willing to expand their search for dividends globally.

For example, we see opportunities in overseas consumer products companies, which as of late, have generally been cheaper than their U.S. counterparts, while offering higher-growth prospects in both established and developing markets. However, as bottom-up stock pickers, we do not look at regional or sector valuations first, but rather we look for opportunities in companies that meet our strict investment criteria. As a result, our portfolio generally consists of a mix of economically sensitive holdings as well as more traditional high-yield investments, including select REITs and telecoms. More generally, we look for companies that are less interested in using cash flow to buy back shares, but are reinvesting in their businesses and increasing their dividends. Japan Airlines is a prime example of this ethos at work. The company's chairman recently instituted a dividend to refocus the company on providing value for its existing shareholders rather than making ill-advised capital expenditures or acquisitions. We like that.

Here at home, we're finding opportunities in U.S. energy infrastructure companies, which let us participate in a booming growth industry with robust yields in the 4–8% range. We find mid-stream infrastructure companies particularly attractive because they aren't directly subject to commodity risk, but rather their operations are driven by the volumes moving through their pipelines.

And where do you see risks?

The primary risk for dividend investors is the lure of companies with high yields but with deteriorating businesses.

For example, Pitney Bowes was a long-time high-yielding stock, and even managed to increase its dividend modestly despite declining demand for mail services. The writing was on the wall for Pitney Bowes as the internet revolutionized the way we exchange information. However, many investors were attracted to the company's high yield and long dividend history. Ultimately, the company was forced to cut its dividend, a decision that seemed inevitable after close examination of the company's financials and business risks. We call such companies "melting ice cubes." They tempt investors with big yields but market forces have eliminated their competitive moats, in some cases, even going so far as to jeopardize their business models. These companies often deliver negative top-line growth while continually restructuring, making acquisitions and buying back shares to give the appearance of progress.

What strategies do you use to mitigate risk?

At Ranger, we are dedicated to finding companies with modest payout ratios, ample cash flows that can sustain dividends and support future dividend growth, and attractive valuations.

For us, ample cash flow is net of normal cash-consuming items like pension funding, capital spending, working capital and research. In addition, our sell discipline forces us to sell holdings as soon as we perceive a fundamental change in outlook. We also believe that because we strive to have a deep fundamental understanding of each company we invest in, we are less likely to be blindsided by unforeseen events.

Further, by following a benchmark agnostic approach, we are not limited in our search for opportunity, nor are we forced to maintain exposures to positions where we find little value. Instead, we can invest wherever we happen to identify opportunity. We believe overweighting sectors and stocks we find compelling—regardless of where they exist—helps us maintain a lower risk profile versus the broader market.

Are you concerned that some traditional dividend-paying sectors have become too expensive? If so, where are you finding alternate sources of income?

Yes. We're finding some traditional dividend stocks are no longer attractive. For years, tobacco companies were considered among the top dividend darlings for income-oriented investors. But at Ranger, we have been less enthusiastic about U.S. tobacco companies as we believed they had become too expensive. We didn't think investors were being compensated for the risks of increased regulation and losses from litigation. We found that foreign tobacco stocks offered a much better risk/reward scenario given the growth prospects of their emerging market customers. But lately we have been reducing our foreign tobacco positions as higher stock prices have pushed yields down to less attractive levels. Foreign tobacco companies are facing increased headwinds in the form of potential tax increases, increased popularity of smoking bans, and lower growth expectations. We also find utility stocks pricey and don't believe their yields are high enough to offset their meager growth prospects.

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Despite last year's rout in several well-known U.S. property REITs, we believe many remain expensive and offer little potential for dividend growth. For example, many big name equity REITs like Simon Property Group, Kimco Realty and Equity Residential offer yields in the 3–4% range (as of 2/28/2014). However, we still own certain U.S. and foreign REITs, where we find compelling valuations and solid growth prospects. Spirit Realty is an example of an equity REIT that offers a yield of almost 6% on a portfolio of triple-net leases with investment-grade tenants throughout the U.S. (as of 2/28/2014). That translates into lower maintenance spending and higher cash flow as their tenants grow sales. Many of Spirit's properties are in small to mid-sized towns with lower competition. Debt refinancing and lease renewals are light for several years.

Other areas we are interested in include energy infrastructure, select foreign telecom and, of course, whatever companies we may unearth with disciplined stock picking.

How do you recommend investors position themselves for higher rates and also for continued uncertainty regarding the U.S. and the global economy?

Given today's higher stock valuations coupled with prospects for rising interest rates, we think it's more important now than ever to invest in reasonably valued assets that can provide both growth and income. Rising cash flow is a good inflation hedge as it allows investors to reinvest at prevailing interest/dividend rates. Further a rising dividend can place upward pressure on a stock's price, partially offsetting pressure from lower valuations.

Can you explain some of the differences between MREITs and equity REITs especially in light of the current environment?

Equity REITs own physical real estate, either commercial or residential. Mortgage REIT purchase securities backed by mortgages, also commercial or residential. Over the years we've purchased both. Which is better for yield-oriented investors depends on the price you pay. We try to be opportunistic.

Equity REITs (or property REITs) lease to tenants and the revenue from the rents they receive is used to cover the mortgages on their portfolio properties. Lease arrangements may differ from tenant to tenant with predetermined rent increases already built into the contracts and clauses that stipulate whether the REIT or the tenant pays taxes, maintenance and/or major structural repairs. However, when we look at U.S. property REITs, many are offering what we consider an adequate yield at best. However, we have found a few equity REITs that boast yields in the 5% range with what we thought were strong prospects for dividend growth. Spirit Realty, National Retail, and Realty are examples of equity REITs which predominantly hold triple-net lease properties—meaning the tenants cover all costs of the property, which limits the risk of unforeseen cash costs. All three REITs operate in retail environments and have investment-grade tenants, many of which are in recession-resistant businesses such as national drug store chains. These REITs have debts that do not mature for several more years and have few tenant contract renewals on the near horizon. As a result, not only are spreads for these REITs locked in for some time, there is also the possibility for rent escalation.

As leverage ratios are below historical norms, we believe there may be room for MREITs to increase leverage, rather than shrink leverage as was the case in 2012–2013.

We are also finding some foreign REITs with attractive yields, growing portfolios, high usage rates, and appreciation potential for portfolio assets. We think these factors should help boost foreign REIT cash flows and dividends. We are particularly interested in more economically-sensitive properties—such as hotels and commercial real estate opportunities—in regions with growing populations, or that can attract tourists to support property growth.

MREITs are generally considered interest-rate sensitive investments. The way MREITs work is that they typically take out short-term loans at low rates and buy mortgage bonds that are longer-term and carry a higher interest rate. Many MREITs will leverage their equity base to buy more mortgages so they can earn the spread over a larger volume of bonds. The spread is the difference between the rate the MREIT borrows at and the rates the MREIT receives from the underlying mortgages in the portfolio. When interest rates rise, the cost of borrowing for MREITs also increases and the spread shrinks. Also, in a rising rate environment, homeowners are less likely to refinance or pre-pay their mortgages, which extends the average loan maturity in an MREIT portfolio. Because the value of the mortgages held in an MREIT portfolio typically falls when rates increase, many MREITs will find they must reduce their leverage, which means they will hold fewer bonds in their portfolio. This scenario

of a smaller spread over fewer bonds means reduced cash flow and ultimately, dividend cuts.

In late 2012 and early 2013, fear of rising interest rates, as well as some actual spikes in long-term rates, hit MREITs hard. Many MREITs reduced leverage and booked losses on mortgages held, which led to several quarters of dividend cuts.

However, what goes around, comes around. Today, many MREITs are trading at discounts to their equity values, which were already marked down. In addition, the Fed's pledge to keep short-term rates low for a while should help protect MREIT spreads.

Can you tell us about PennyMac?

PennyMac is among our top portfolio holdings. While we were selling MREITs last year, we held onto PennyMac and increased our position throughout the year. PennyMac is not like other MREITs because it does not buy mortgages at a high leverage ratio. PennyMac buys two primary assets: troubled loans from banks and mortgage servicing rights (MSRs).

PennyMac buys troubled mortgages at a discount from banks. The company will either repossess the home and sell it, or try to restructure the loan so the homeowner can afford the payments. When a restructuring is complete, PennyMac can sell the loans to Fannie Mae for a profit. In both situations, PennyMac recycles the capital and normally makes a profit that helps pay the dividend. The company has purchased huge pools of these loans so the future dividend growth potential looks strong. We also liked PennyMac because it was not as interest rate sensitive as most mortgage REITs and they were not directly competing with the Fed for their primary assets. As a part of its quantitative easing program, the Fed has been buying Fannie Mae mortgage bonds, but not the troubled loans that PennyMac buys directly from banks. As a result, PennyMac was able to buy loans at reasonable prices.

As the MSR holder, PennyMac collects fees for applying loan payments, sending out delinquency notices, and mailing annual interest expense paid letters. When homeowners are actively seeking to refinance mortgages, MSRs lose value because the MSR is worthless when a loan is paid off in full. However, when loans are not refinanced, MSRs rise in value because the loan will have a longer life due to a lack of early payments and PennyMac keeps collecting fees for servicing the mortgage. We liked the company's business very much as refinancing activity has slowed. PennyMac's stock price suffered along with the rest of the MREITs, but the company was able to continue growing its dividend as its MSR assets rose in value. Our position in PennyMac generated a 9.5% yield as of 2/28/2014.

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What are some examples of companies/investments that may give insight into your investment approach?

Ship Finance (SFL) was spun-off of Frontline LTD in 2004. Initially, Ship Finance generated most of its revenue from oil tankers that the company leased back to its former parent company. Frontline, has since shifted many of its investments to offshore drilling rigs. The company has also been acquiring bulk and container freight vessels.	
Meaningful yield	We purchased the stock at around a 10% yield in October 2013. Further, the company has a history of supplementing the yield with frequent special dividends.
Quality	After significant spending on cargo ships and oil rigs, the company is now in a position to deliver strong free cash flow. Further, we believe cash flow should improve as oil tankers become a shrinking part of their business. The company generates ROI (return on investment) in excess of 15% on its oil rig deals, a growing part of its business.
Financial strength	Despite the high yield, the company is financially sound as the dividend consumes only 70% of free cash flow leaving ample funds to reinvest and grow the business.
Valuation	We believe our purchase price was quite attractive and will look increasingly better as capital continues to be redeployed into higher return businesses and dividends are sustained and even increased.

Alliance Resource Partners (ARLP), a major diversified producer and marketer of steam coal to utilities and industrial users in the U.S.	
Meaningful yield	We purchased ARLP in August 2013 at around a 6% yield with a dividend growing at an 11% rate.
Quality	While the coal industry faces several challenges, ARLP is increasing cash flow even as it boosts capital spending. The company is benefiting from environmental rules requiring coal fired plants to install high tech scrubbers to control pollution. Coal plants so equipped can now buy cheaper, high sulfur coal while meeting environmental standards. This directly benefits ARLP.
Financial strength	The company boasts low debt and cash flow covers capital spending and the dividend.
Valuation	The company has good potential for continued growth yet was purchased for around 5x EBITDA (earnings before interest, taxes, depreciation and amortization).

Philip Morris (MO), British American Tobacco (BATS) and **Imperial Tobacco (IMT)** all had a great run, in part due to their heavy exposure to developing markets and attractive payout policies for dividend investors. However, we sharply reduced exposure to international tobacco stocks given recent industry developments.	
Meaningful yield	All of these stocks yielded about 4% as of 2/28/2014. Robust dividend growth for these companies came from cash flow growth, boosting the payout ratio, and then borrowing money. Those levers have been pulled already and we see no encore.
Quality	Free cash flow is now under pressure. Western European markets have decayed for years with aging populations and efforts to reduce smoking. The emerging market governments are boosting cigarette taxes and adding smoking restrictions, thereby cutting demand.
Financial strength	Debt is now 2-4x EBITDA as these companies repurchase shares (as of 2/28/2014). Payout ratios for the dividend are about 70%, and repurchases add another 50%-70% demand on free cash flow.
Valuation	Tobacco stocks used to climb the wall of worry. Cash flow growth was strong, dividends high, and valuations were under 6x EBITDA as investors generally avoided tobacco. Renewed popularity means the yields are now low despite years of dividend growth and prices to EBITDA are 10-12x (as of 2/28/2014).

How can dividends be a stabilizing factor in a rising rate environment?

First, consider that the long-term rate of total return from stocks is about 9.5%. From December 1926 to December 2012, dividend income comprised 34% of the monthly total return of the S&P 500®, and a much higher percentage during some periods such as the 1940s and the 1970s when dividend income accounted for more than half of the total return for the S&P 500®. While stock prices will always fluctuate, the income from a portfolio of dividend-paying stocks provides an important component of total return that is far less volatile than the capital appreciation component.

By looking at the two components of total return—income and price return—separately, it is possible to see that the income component is far less volatile than the price return. As a result, a steady dividend stream can help cushion the impact of more volatile price returns. Therefore, the total return for a stock without a dividend will generally be more volatile as it cannot benefit from a stabilizing effect of a steady dividend stream.

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Although duration is used to describe the volatility of a bond, it can also help explain why dividend stocks are less volatile than non-dividend payers. Duration describes the sensitivity of bond prices to changes in interest rates. For example, with all other factors being equal, the price of a zero coupon bond is more sensitive to interest rate changes than a high coupon bond because the entirety of the zero coupon bond's returns are influenced by the impact of the interest rate change on a value to be received far into the future. Similarly, the price of a stock that doesn't pay a dividend is effectively determined by the level of its earnings well into the future, and the multiple placed on those earnings. By looking at it in this light, a stock without a dividend is similar to a zero coupon bond—with all of the return dependent on a stock price in the future. In contrast, a stock with a dividend generates income, which means that a portion of the total return is delivered each and every year.

Terms and definitions

General terms

Cash flow: The movement of money flowing into and out of a business.

Coupon: The stated interest rate on a bond that the bond issuer pays to the bondholder.

Cyclically-adjusted price-earnings (CAPE) ratio: A measure of a company's (or investment's) price relative to its historical average adjusted for inflation.

Duration: A measure of an investment's sensitivity to changes in interest rates

EBITDA (earnings before interest, taxes depreciation and amortization): An indicator of a company's financial performance.

Fed tapering: The reduction of the Fed's policy for quantitative easing (bond-buying program).

Federal Reserve: The central bank of the U.S. which serves as both a regulator and a banker to U.S. banks. The Federal Reserve is composed of a central government agency (the Board of Governors) and 12 regional Federal Reserve Banks.

Inflation: A rate that measures the rise in the general level of prices for goods and services.

Initial public offering (IPO): A company's first sale of stock available to the public.

Interest coverage: A measure of a company's financial strength based on its earnings relative to the interest it must pay.

Price-earnings multiples: A valuation ratio based on a stock's price divided by its earnings-per-share (EPS).

Real estate investment trust (REIT): A company that owns income generating real estate or real estate-related assets.

Spread: The difference between the yields of securities that often have different credit profiles.

Working capital: A measure of a company's operating efficiency and short-term financial health.

Zero coupon bond: A debt security that does not pay interest. Instead a zero coupon bond is issued at a deep discount to its face value, which is the amount it is worth at maturity.

Important Information

Mutual funds are subject to market risk, including the loss of principal. Asset classes described may not be suitable for all investors.

Please consider the fund's investment objectives, risks, charges and expenses carefully before investing. The prospectus contains this and other information about the funds and should be read carefully before you invest. For more information about Transamerica Funds or to obtain a prospectus and/or summary prospectus, please contact your financial professional. You can also call Transamerica Funds at 888-233-4339 or visit our website at transamericainvestments.com.

As of 12/31/2013, Transamerica Income & Growth held positions in Japan Airlines Co., Ltd (2.72%), National Retail Properties, Inc., REIT (1.66%), Realty Income Corp., REIT (1.64%), PennyMac Mortgage Investment Trust, REIT (3.74%), Ship Finance International, Ltd. (2.92%), Alliance Resource Partners, LP (2.15%), Philip Morris, Inc. (0.73%), and British American Tobacco PLC (0.90%). As of 12/31/2013, the fund did not hold positions in Twitter, Inc., Facebook, Inc., Pitney Bowes Inc., Simon Property Group Inc., Kimco Realty Corp., Equity Residential, Spirit Realty Capital, Inc., or Imperial Tobacco Group PLC.

REITs are subject to a number of highly technical tax-related rules and requirements; and the failure to qualify as a REIT could result in corporate-level taxation, significantly reducing the return on an investment to the fund. Investments in MLPs involve risks that differ from investments in corporate issuers, including risks related to limited control, cash flow risks, dilution risks and risks related to the general partner's right to require unitholders to sell their common units at an undesirable time or price. Investments in global/international markets involve risks not associated with U.S. markets, such as currency fluctuations, adverse social and political developments, and the relatively small size and lesser liquidity of the markets. Investing in high-yield securities may be subject to greater volatility and risks as the income derived from these securities is not guaranteed and may be unpredictable and the value of these securities tends to decline when interest rates increases.

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