Mythbusting Municipal Bonds

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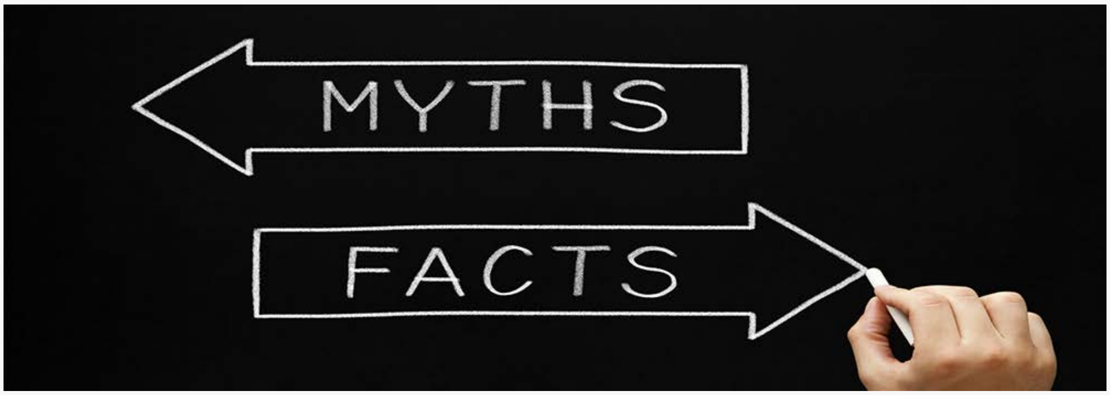

There is a lot of information out there about municipal bonds. Some of it is good, but not all of it is helpful, which is why we wanted to shed light on the truth behind four popular misconceptions your clients might have about municipal bonds.

1) Only rich people invest in munis.

Busted! When have you heard anyone say, "Gee, I really wish I could pay more in taxes!"–Probably not often, if ever. Sure, it is possible for a person to believe that paying taxes is a patriotic deed. But with munis, you invest in local communities and governments–So you can be a good citizen ***and*** have the potential to generate tax-free income from your investments at the same time.

While it's true that the higher your tax-bracket, the bigger your potential tax advantage–munis can make sense for anyone who wants to keep more of their investment. After all, if you're like most of us, you work hard for your money so why wouldn't you want your money to work as hard as you do?

2) Munis are riskier than other types of bonds.

Busted! Not really–but it really just depends. The first thing to know when considering munis and risk is that not all munis are alike. The second thing to know is that all investments carry at least some risk. And the third thing is that there are different types of risk. Because risk is relative, you may find you're trading one type of risk for another.

Consider the following:

- *Not all munis are alike*

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With approximately **$3.6 trillion in debt outstanding**, generalizations about the municipal marketplace are often misplaced. Issuers and credits cover a range of credit qualities, maturities, sectors and territories.

- *“Risk-free” doesn’t really exist*

Treasuries, backed by the full faith and credit of the U.S. government, are widely regarded as the benchmarks for “risk-free” rates. But Treasuries are not entirely not without risk.

Treasuries, like all other investments, can lose value. For example, there is no guarantee that a Treasury (*not counting TIPS!*) will keep up with inflation. And if you have to sell a Treasury in a rising interest rate environment, you could be surprised to find that your investment is worth less than what you originally paid for it.

- *Risk is relative*

The goal for most fixed income managers is to generate income, protect principal and enhance total return. And for most fixed income managers, there are just two strategies that can help them achieve those goals and stay competitive in what is largely considered a crowded market–They can either manage their exposure to interest rate risk or they can manage their exposure to credit risk.

> **Credit risk:** The risk that an issuer will not be able to meet its financial obligations (either an interest payment or the principal at maturity)

> **Interest rate risk:** In general, when interest rates go up, bond prices go down. And when interest rates go down, bond prices generally go up. Interest rate risk is the risk that fluctuating interest rates will make a bond investment lose value.

Typically, the longer a bond has until it matures, the higher the risk that rising interest rates will cause the price of the bond to fall.

Sometimes when interest rate risk is high and credit risk isn’t much of a factor, it may make sense to boost your exposure to lower-rated credits while trimming back on your longer duration plays.

With munis, there are other types of risk at play including call risk, the risk that a bond issuer will pay back the bond’s principal value early—before maturity—thereby stopping its interest payments; and market risk, the risk that prevailing market conditions may impact the value of a bond.

Long story short–Know your risks and allocate accordingly.

3) Defaults are common.

Busted! But what about Detroit, Puerto Rico, Stockton and Chicago?

It is true that there have been some high-profile municipal defaults, or near-defaults, in the news over the past several years and that municipal finances are generally still recovering in the wake of the 2007 – 2008 recession.

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However, according to *The Bond Buyer*, even as **the number of municipal bonds failing to repay their debts climbed to records highs in 2014, it was notable that there were fewer first-time issuer defaults.** In addition, muni defaults remain lower than their corporate counterparts. In the same article, *The Bond Buyer* also reported that in 2014 the default rate for the S&P Municipal Bond High Yield Index was 1.264% in 2014 compared with 1.52% for the S&P US Speculative Grade Corporate Bonds Index. In 2013, the high yield municipal bond index default rate was 0.807% versus 2.1% for the high yield benchmark.

4) Municipal bonds are expensive.

Busted! Investing in municipal bonds doesn't have to be expensive. A professionally managed mutual fund can be an efficient and affordable way for the average investor to get exposure to the municipal market.

Among the benefits of municipal bond funds over individual bonds are:

- Greater diversification than most individual investors can achieve on their own
- Low barrier to entry (low minimum initial investment required)
- Liquidity–funds are easily exchanged
- Income paid monthly/quarterly

In addition, an experienced and knowledgeable portfolio management team can help investors avoid credit minefields especially in unpredictable markets where issuer selection and risk oversight can make all the difference.

is a top-rated municipal bond fund that has consistently outperformed its peers since its inception three years ago.*

The fund has an opportunistic strategy that combines deep credit analysis, security selection and best execution on transactions. It can invest in issuers across the credit and maturity spectrum as it seeks to maximize total returns with an eye toward safety of principal and income that is exempt from federal taxes.

***The fund received a Morningstar Rating™ of 5 stars for the three-year period (Out of 283 funds) in the intermediate-term national municipal bond fund category.**

Source: Morningstar. Past performance does not guarantee future results. Morningstar Percentile Rankings are based on annualized total returns in respective Peer category and do not reflect sales charges. Rankings for each share class will vary due to different expenses. The Morningstar % Ranking compares a Fund's Morningstar risk and return scores with all the funds in the same Category where 1% = Best and 100% = Worst. Rankings are not provided for periods less than one year. Transamerica Enhanced Muni Fund Class A ranked in 1st out of 309 funds for the 1-year period as of 9/30/15 in the Morningstar US OE Muni National Interm category. The fund are also ranked 1 for the year end period 2013 out of 284 funds and 4th in 2014 out of 315.

For each fund with at least a 3-year history, Morningstar calculates a risk-adjusted return measure that accounts for variation in a fund's monthly performance (including the effects of all sales charges), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receives a Morningstar Rating™ of 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5%, receive 2 stars, and the bottom 10% receive 1 star. (Each share class is counted as a fraction of one fund and rated separately.) A fund's overall rating is derived from a weighted average of the 3- 5- and 10-year (if applicable) rating metrics. The Morningstar Rating™ is for Class A shares only; other classes may have different performance characteristics.

Mutual funds are subject to market risk, including the loss of principal.

Shares of the fund may only be sold by offering the fund's prospectus. You should consider the investment objective, risks, charges, and expenses of the fund carefully before investing. The prospectus contains this and additional important information regarding the fund. To obtain the prospectus and/or a summary prospectus, visit . The prospectus should be read carefully before investing.

Municipal bond prices can rise or fall depending on interest rates. Interest rate changes generally have a greater effect on long-term bond prices. All municipal bonds carry credit risk that the issuer will default or be unable to make timely payments of interest and principal. Generally, lower rated bonds carry more credit risk.

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