

Outlook

Transamerica Investment Management, LLC

First Quarter 2009

Summary

We are currently in the midst of a global recession brought on by the deepening financial crisis. During the fourth quarter, the U.S. and foreign governments continued to take increasingly aggressive and, in some cases, unprecedented monetary and fiscal steps to contain the crisis. These actions will result in a partial leverage transfer from the private to the public sector. However, the impact from the credit crisis has now transitioned into the reality of significantly slower economic growth globally.

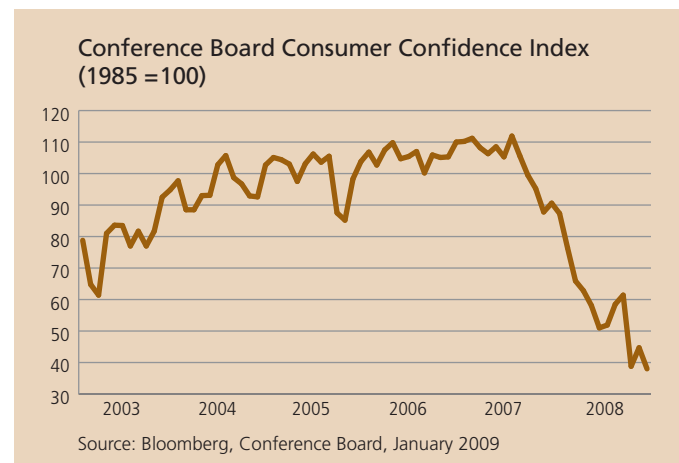
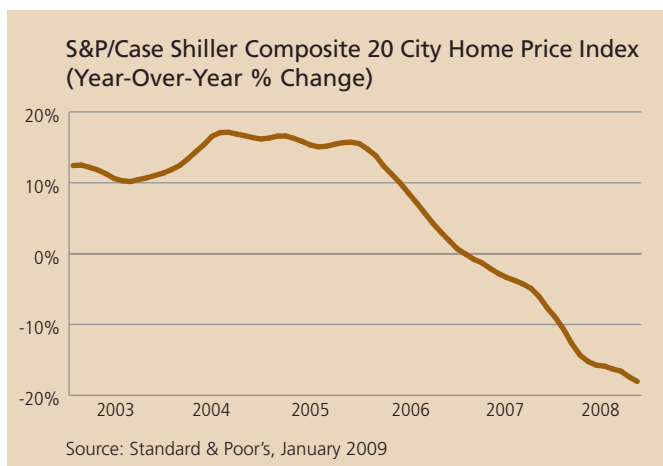
Corporate and consumer balance sheet rebuilding and de-leveraging will probably continue for the foreseeable future, resulting in a diminished outlook for retail sales, manufacturing, employment, and first-quarter GDP. On a more positive note, commodity prices have declined, alleviating inflationary pressures and allowing central banks to keep interest rates low. The risk of decreasing prices has been priced into government bond markets, but we believe a prolonged period of deflation is unlikely.

Fiscal and monetary stimulus will continue to play a leading role in an economic recovery. The United States was the first and most aggressive with fiscal and monetary policy responses to the crisis, and we expect it to lead the global recovery in mid- to late 2009. We anticipate that the total cost of the fiscal stimulus may exceed \$8 trillion over the long term, leading ultimately to increased inflationary pressures.

High-quality corporate bonds and stocks now offer attractive long-term risk-adjusted returns, while alternative investments and derivatives will likely continue to suffer from de-leveraging, illiquidity, and a desire for more conventional and less complex investments. Demand for money market funds should diminish as investors seek higher yields offered by high-quality short- and intermediate-maturity bond funds.

Consumer Spending

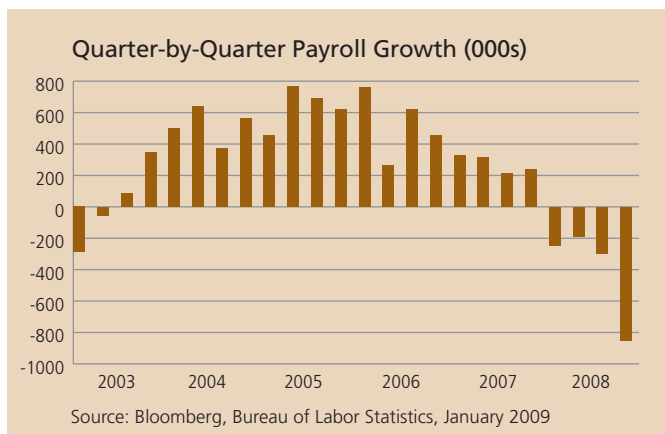
The consumer came under significant pressure as weakness in the labor market accelerated, pressuring personal income and spending. U.S. household net worth decreased by a record \$2.8 trillion in the third quarter, and confidence among U.S. consumers reached an all-time low in December. Tight credit conditions and declining values of homes and investment portfolios will likely cause consumers to focus on increasing savings.



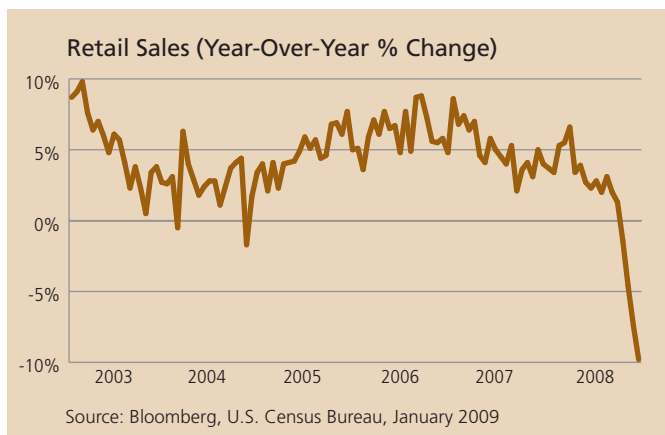
The unemployment rate increased from 6.1% at the end of the third quarter to 7.2% in December. Job losses accelerated during the fourth quarter, bringing total jobs lost in 2008 to over 2.5 million, according to the U.S. Bureau of Labor Statistics. This represents the worst year for U.S. job losses since 1945.



We expect the unemployment rate to surpass 8% during 2009. Layoffs are expected to increase in the consolidating financial sector, as well as in manufacturing, where a leaner work force is likely to be a major part of restructuring the automotive sector. Approximately 600,000 construction jobs were lost during 2008; however, this could be partially offset by the implementation of a large infrastructure stimulus package.



As the employment situation has deteriorated, it has become increasingly difficult for workers to ask for and receive higher wages. Personal income continues to deteriorate, declining to a 2.5% annual growth rate in November from 3.3% at the end of the third quarter. Although average hourly earnings have remained steady, hours worked have fallen.



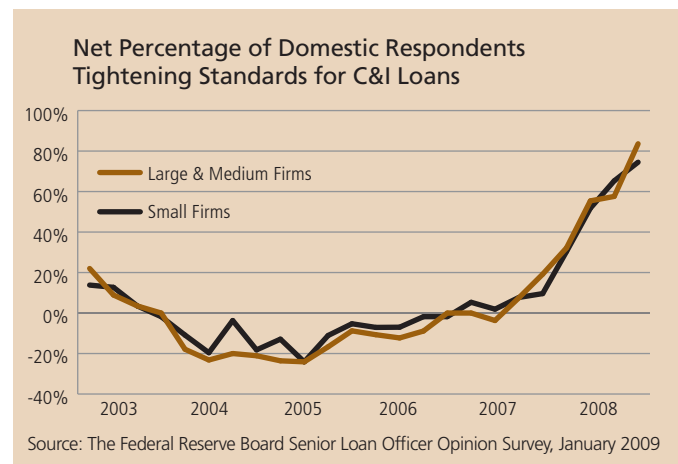
On a positive note, prices for many consumer staples such as gasoline and food have fallen and inflation has decreased, resulting in accelerated real average hourly earnings. In addition, recent surveys show that the pace of credit tightening for consumer loans and credit cards is abating modestly. A government program to be implemented in 2009, the Term Asset Loan Facility, should further ease consumer credit conditions modestly. Finally, the government's efforts to lower mortgage rates should make homes more affordable and offer refinancing opportunities. However, these factors are unlikely to stem a dramatic decline in retail sales, which decreased at a 9.8% annual pace through December.

Business Outlook

Business conditions weakened as tighter credit conditions continued to negatively impact business confidence, access to funding, and the propensity to hire and make capital investments. According to the Federal Reserve Senior Loan Officer Survey, over 75% of respondents reported tightened lending conditions for commercial and industrial loans, and there is evidence that access to funding has become more expensive.

The real economy has begun to feel the full impact of this as manufacturing activity in both the U.S. and global economies declined at the fastest pace in several decades. In December, the ISM manufacturing index fell at its fastest pace since 1980, new orders reached the lowest levels in 60 years, and pricing also showed considerable weakness. The economic slowdown is having a large impact on revenues, while falling commodity prices are partially helping those businesses dependent upon raw-commodity inputs. Businesses that rely heavily on exports are now experiencing weakness as the U.S. dollar has rebounded and the global economy has fallen into recession.

Business confidence continues to deteriorate, as evidenced by the National Federation of Independent Businesses' (NFIB) December reading. The NFIB's index has recently recorded historically low readings in sales, pricing power and planned capital expenditures.



On a more positive note, the government's commercial paper funding facility and the FDIC term-loan guarantee program have taken significant funding pressure off high-quality companies and banks. Many companies have been aggressively reducing inventories as well, suggesting that any increase in demand will need to be met with quick increases in production.

Another tailwind for businesses may come in the form of lower taxes and capital expenditure incentives as part of an early 2009 economic stimulus package. In addition, productivity enhancements may be realized as businesses implement layoffs and hiring and salary freezes, effectively adopting a strategy of doing more with less.

Government Spending

One part of the economy that will expand in 2009 will be government spending, driven by massive economic stimulus and rescue packages; total U.S. government commitments related to stemming the financial crisis, if fully drawn, could be as much as \$8 trillion.

The enormous fiscal response will result in a budget deficit well in excess of \$1 trillion. This will augment an already ballooning budget deficit, which has widened due to increased congressional spending and war funding that have not been adequately offset by tax revenues.

So far, there is evidence that the government's stimulus programs are working. Bank capital adequacy levels and access to credit have improved, conforming-mortgage rates are lower, and borrowing conditions in the short-term funding markets have eased. Looking ahead, a broad-based stimulus package that may exceed \$1 trillion is expected shortly after President-elect Barack Obama is inaugurated.

Trade and International Outlook

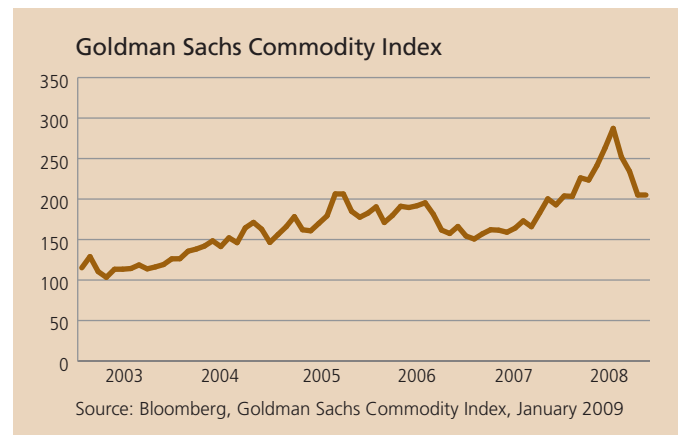
Many economies elsewhere are officially in a recession, including Germany, Italy, Japan, and Eastern Europe. China also is slowing dramatically as declines in global demand have hurt the country's export-driven economy.

The U.S. dollar strengthened throughout most of the fourth quarter as the credit crisis spread globally and foreign central banks eased monetary policy to combat slowing economies. The greenback also benefited from a flight-to-quality bid as volatility in the financial markets reached new peaks in October and November. The dollar has recently lost some ground due to weak U.S. economic data, U.S. interest rates near zero, and expectations of a massive budget deficit.

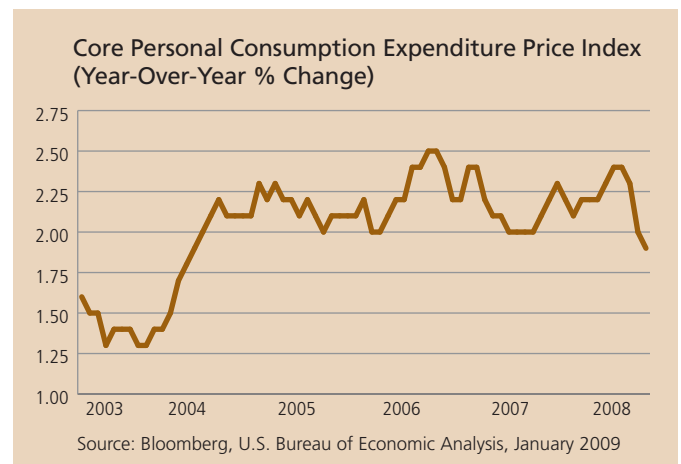
U.S. exports have decreased due to weakness in the economies of our trading partners as well as a modestly stronger dollar. We anticipate exports and imports will slow during the next several quarters as the synchronized global recession takes hold. We also expect trade to be impacted by protectionist measures as countries implement rescue packages intended to save domestic jobs.

Inflation

Inflation has moderated significantly from the elevated levels experienced during the first half of 2008, primarily due to an unprecedented drop in commodity prices and slowing global economies. The Goldman Sachs Commodity Index plunged almost 53% during the fourth quarter, its biggest 90-day drop on record.



Recent Consumer Price Index and Producer Price Index measurements show month-over-month price declines. It is likely these indicators will show year-over-year deflation for a brief period during the first half of 2009 due to extremely high commodity prices during the corresponding period of 2008. The Fed's preferred inflation gauge, the Core Personal Consumption Expenditure Price Index, has moved below the Fed's upper threshold of 2% and is likely to decline further in the months ahead.



Although some forms of deflation exist today (e.g., food and energy prices), we do not expect a deflationary spiral given the massive fiscal and monetary stimulus. We believe these measures may reignite long-term inflation in the years ahead.

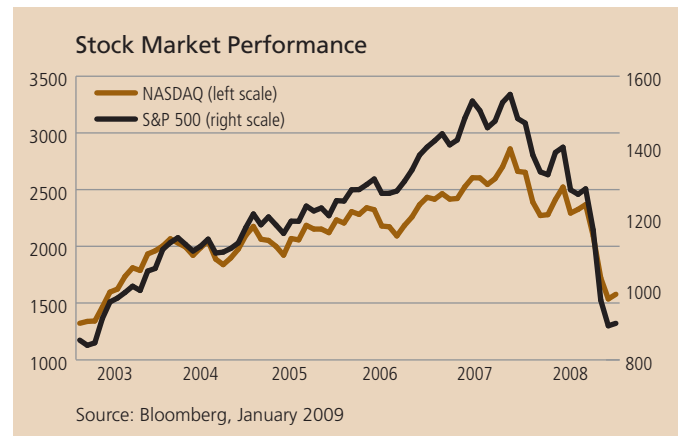
Interest Rates

U.S. Treasury yields fell significantly during the fourth quarter as the Federal Reserve cut short-term rates essentially to zero and indicated a willingness to leave them near this level "for an extended period of time." The Fed also suggested that it may utilize more nontraditional forms of stimulus, such as purchasing long-term Treasuries and mortgage-backed securities. Yields on longer-maturity Treasuries declined more than yields for shorter-term Treasuries, despite the aggressive rate cuts by the Fed, as extremely weak economic data suggested that the economy would slow more than anticipated and lead to lower inflation. Treasury yields across the interest rate curve hit lows last witnessed during the 1930s.

historically high yields. However, defaults are anticipated to increase dramatically in 2009 due to excessive leverage and diminished earnings prospects for corporations.

Stock Market

The stock market had one of its worst quarters on record as restrictive credit conditions caused global economies to slow precipitously. The S&P 500 Index lost over 20% of its value during the fourth quarter and approximately 38% during 2008. We expect fourth-quarter operating earnings for the S&P 500 to decline, making the sixth consecutive quarterly drop. However, stocks are more appropriately valued after the decline of 2008, and there are tentative signs that investors are becoming more willing to take risk.



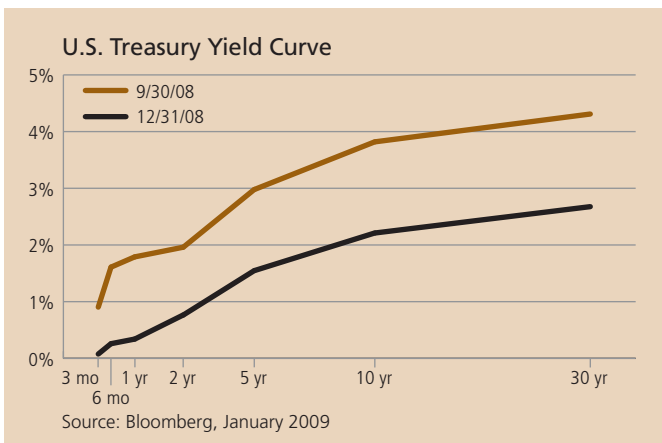
We believe the United States will lead the global economic recovery, and that companies with significant domestic earnings exposure and minimal foreign exposure should outperform. In addition, the pending fiscal stimulus package should benefit industries involved in infrastructure buildout and environmental initiatives. Finally, companies with sustainable business models, solid balance sheets, robust cash flows, and strong management teams will provide the best investment opportunities.

Recent evidence suggests that the unprecedented measures taken to repair the credit markets are beginning to work. The massive stimulus programs by U.S. and foreign governments should ultimately result in a global economic recovery. We expect financial markets to rally in anticipation of a recovery during mid- to late 2009.

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Near term, interest rates will likely remain low while the economy continues to exhibit weakness and the Fed makes good on its commitment to keep interest rates low. This could have negative effects on government money market funds that now offer yields approaching zero.

Over the intermediate to longer term, once policy efforts show tangible signs of success, a reversal of safe-haven flows and unattractive total return prospects should cause Treasury yields to move higher. In addition, it is estimated that the U.S. Treasury will have to issue over \$1.5 trillion of debt in 2009 to fund various fiscal stimulus packages, more than three times the record set in 2008. During the adjustment period, short-maturity bond funds will offer more stable returns with less interest rate risk.

For corporate bonds, 2009 should be a more constructive year than 2008. Investment-grade corporate spreads reached all-time highs during the 2008 fourth quarter and should begin to narrow once fiscal and monetary stimulus programs take hold. Further, as investors shift their focus from safety to total return, the investment-grade corporate bond market will offer a compelling risk-return trade-off. Non-investment grade bonds offer

