

OUTLOOK

TRANSAMERICA INVESTMENT MANAGEMENT, LLC

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Summary

The risk of a global recession has increased as a result of the deepening credit crisis. During the third quarter, the U.S. government was forced to take increasingly drastic fiscal measures to contain the crisis as large financial institutions faced liquidity and funding difficulties. This resulted in reduced global credit availability, negatively impacting consumers and businesses around the world.

Bank balance sheet rebuilding and de-leveraging will probably continue for the foreseeable future, likely resulting in a diminished outlook for retail sales, employment, and fourth-quarter gross domestic product (GDP). On a more positive note, commodity prices have declined as the global growth outlook has dimmed, alleviating inflationary pressures and allowing the Federal Reserve (Fed) more leeway to maintain low rates.

Credit scarcity will create extremely difficult conditions for consumers and companies reliant on continued access to the credit markets. This credit scarcity will likely have an adverse impact on companies in the financial sector, which require access to credit to fund their day-to-day operations. The recent global fiscal and monetary response should eventually alleviate this situation. Alternative investments such as hedge funds and private equity funds, which utilize leverage in their strategies, will probably be impacted most negatively.

Against this backdrop, there may be opportunities in more traditional investments such as high-quality bonds, stocks, and mutual funds. Continued demand for less-volatile assets should benefit money market funds and other short-maturity, high-quality bond funds. Equity funds utilizing fundamental analyses will have the opportunity to capitalize on attractive valuations in companies with strong, sustainable business models.

FOURTH
QUARTER
2008

CONSUMER SPENDING

The consumer remains under significant pressure due to a weakening labor market, tighter credit conditions, decelerating personal income and softening home prices. This all suggests lower consumption levels and "trading down" to lower-priced consumer goods.

The unemployment rate increased from 5.5% to 6.1% during the third quarter and, according to the Bureau of Labor Statistics, 760,000 jobs were lost during the first three quarters of 2008. While a 6.1% unemployment rate is still low by historical standards, it is expected to increase as a result of the weakness in the economy and the large number of financial sector jobs that have been lost.

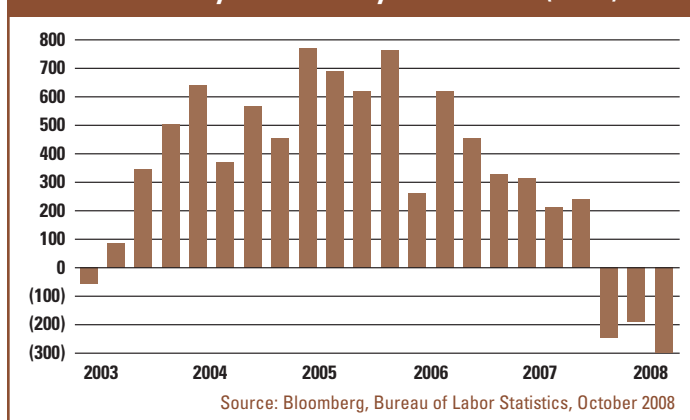


Job losses and a commensurate increase in the unemployment rate have diminished the ability of workers to ask for and receive higher wages. This has resulted in decelerating personal income while real income, which is adjusted for inflation, remains negative. Accordingly, annualized U.S. personal income growth slowed to 4.6% in August from 5.7% at the end of the second quarter while the annualized average hourly earnings growth rate remained constant at 3.4%.

Credit extended to consumers continues to tighten, reducing the ability of consumers to supplement their spending power. As people

draw down their last forms of credit, consumer loans at banks have increased. However, new consumer loans are much harder to obtain. For example, the Federal Reserve Senior Loan Officer Survey shows a substantial increase in the number of respondents reporting tighter lending standards for credit cards and other

Quarter-by-Quarter Payroll Growth (000s)



Personal Income Growth (2003 - 2008) Year-Over-Year % Change



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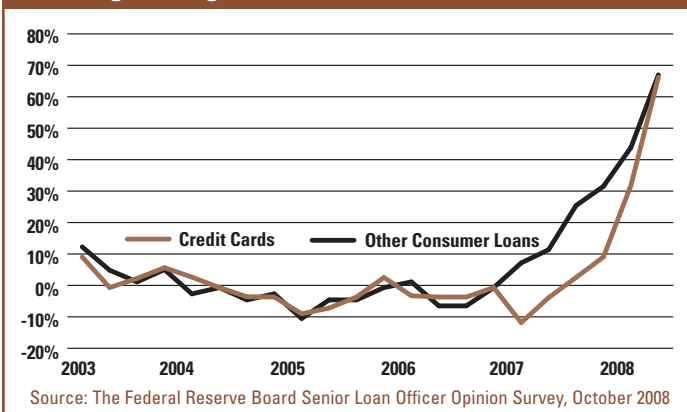
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**U.S. Average Hourly Earnings
(Year-Over-Year % Change)**

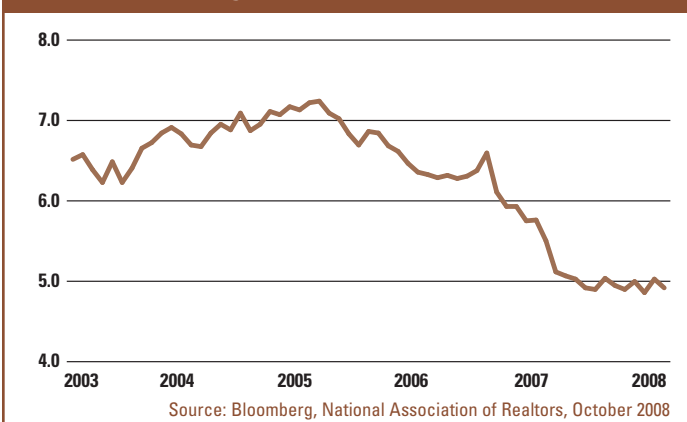


consumer loans. Further, mortgage equity withdrawals have fallen substantially and are now negative. Although existing home sales have shown some signs of stabilization, home prices continue to weaken and the inventory of unsold existing homes remains high at 10.4 months' supply. Lower home prices, combined with a weak stock market, caused consumer net worth to fall an estimated 9% during the third quarter.

**Net Percentage of Domestic Respondents
Tightening Standards on Consumer Loans**

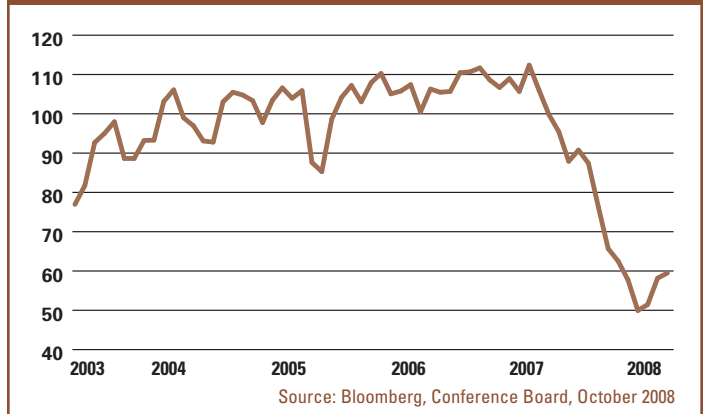


U.S. Existing Home Sales (Millions, SAAR)



Consumer confidence hit multi-decade lows as wages, employment, home prices and stock prices came under downward pressure. While the Conference Board Consumer Confidence Index has rebounded in the last few months, it remains close to levels last experienced during the recession of 1992, and we expect it to continue to decline for the next several months.

**Conference Board Consumer Confidence Index
(1985=100)**



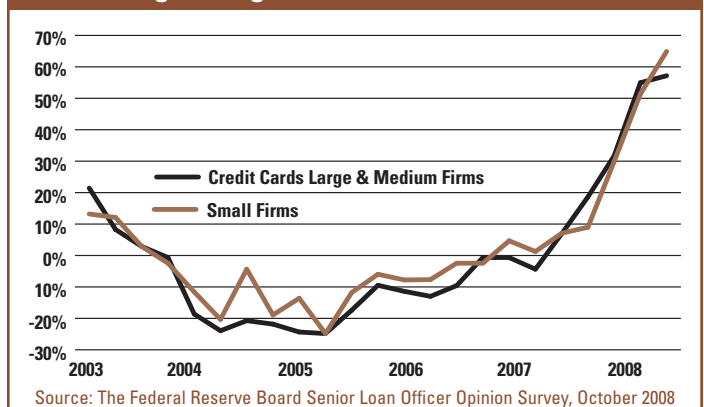
Lower food and energy prices should provide some relief to cash-strapped consumers. Nonetheless, with the headwinds facing the consumer unlikely to abate in the near future, tepid consumer demand will probably remain a part of the economic outlook for several quarters to come.

BUSINESS OUTLOOK

Weak domestic demand, tighter credit conditions and reduced business confidence all suggest diminished propensity to hire and invest. The ISM Manufacturing Index recently reported the weakest number of new orders since early 2001. Foreign demand for U.S. goods and services, recently an area of strength, is expected to fall due to the expansion of the credit crisis, a likely global recession and the stronger U.S. dollar.

Businesses are experiencing tighter funding conditions and higher borrowing costs. According to the Federal Reserve Senior Loan Officer Survey, there has been a significant increase in the number of respondents reporting tighter lending standards. Further, most loan officers in the survey reported increased interest rates on

**Net Percentage of Domestic Respondents
Tightening Standards for C&I Loans**



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commercial and industrial loans. However, near-term funding risk should be partially mitigated by the Fed's newly introduced Commercial Paper Funding Facility, which will essentially provide short-term loans to highly rated companies across all sectors.

The National Federation of Independent Business still shows depressed business optimism, extending one of the longest strings of recessionary readings on record. According to the Federation, "the weak economy has reduced the need for expansion and new equipment and has put pressure on cash flows." Further, the Challenger Gray survey of announced job cuts remains near its 29-month high.

There are, however, a few bright spots in the business outlook. Inventories remain very low by historical measures, suggesting that further production cuts will be minimal and that demand growth may spur production increases. Furthermore, as input prices continue to fall, some margin stabilization or even margin expansion may occur. Finally, the accelerated depreciation allowed on capital expenditures made in 2008 (part of the recent fiscal stimulus package) should encourage companies to move their investment spending plans forward.

GOVERNMENT SPENDING

Government spending is expected to balloon over the next several quarters due to already increasing budget deficits combined with massive expenditures related to various financial rescue packages. The fiscal response to the financial crisis will have enormous budget implications and is expected to double the budget deficit to nearly \$1 trillion.

Chief among these programs is the Emergency Economic Stabilization Act of 2008, which will initially allow the purchase of up to \$700 billion in troubled assets from banks and other businesses, including government guarantees on certain bank debt as well as equity capital injections. The program also will raise the FDIC deposit insurance limit temporarily from \$100,000 to \$250,000 and will provide tax incentives for new home purchases in addition to calling for the modification of certain existing mortgages in an effort to slow foreclosures.

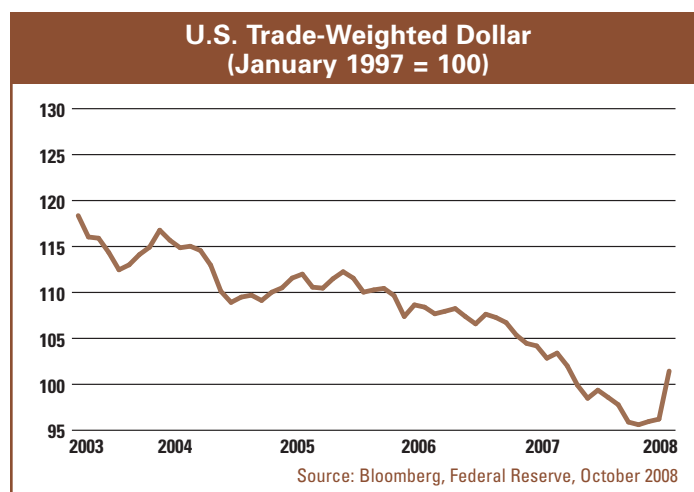
The Federal Reserve, U.S. Treasury and Congress are instituting several other measures to stabilize the financial system. Treasury has created an insurance program for money market funds and has offered to purchase secured and unsecured commercial paper directly from issuers in an effort to break the logjam in the short-term funding markets. In addition, the Federal Reserve took the extraordinary move of providing AIG, the world's largest insurer, with a one-of-a-kind loan for over \$120 billion to give the company time to sell assets. These actions are in addition to the \$168 billion fiscal stimulus package passed earlier in the year, as well as the effective government takeover of troubled government-sponsored entities Fannie Mae and Freddie Mac. As of this writing, several additional fiscal stimulus measures were being considered. These include an expansion of the rescue package, as well as another stimulus bill that may include middle-class tax relief, extended unemployment benefits, and assistance to state and local governments.

All of these plans will cost an enormous amount of money, and therefore the statutory debt ceiling of the U.S. government has been increased from \$10.6 trillion to \$11.3 trillion. We expect a large increase in Treasury security issuance over the next several quarters in order to fund these programs.

TRADE AND INTERNATIONAL OUTLOOK

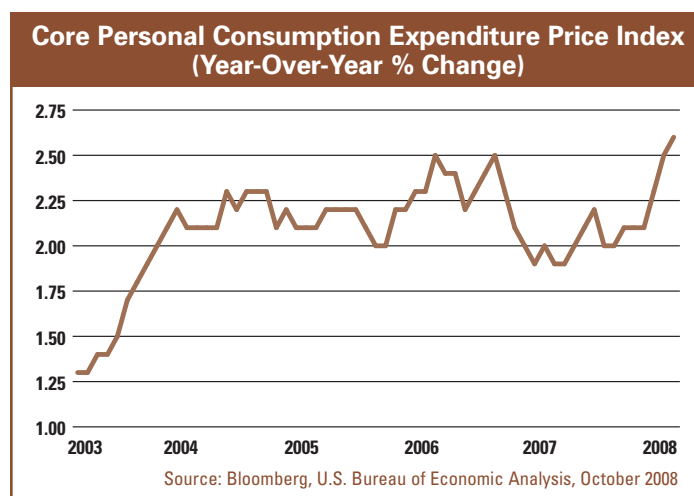
We expect global economies to slow as the credit crisis spreads to Europe and other major global economies. As the financial crisis has spread, several foreign central banks have relaxed their monetary policies, which have, until now, been fixated solely on fighting inflation. This change in policy was exhibited in early October, when the European Central Bank, the Bank of England, the Royal Bank of Canada, the Swedish Riksbank and the Swiss National Bank joined the Fed in a coordinated rate cut.

The U.S. dollar should continue to strengthen modestly as foreign central banks embark on easing monetary policies, which should ultimately bring global short rates more closely in line with those in the U.S. Slowing foreign economies, combined with a stronger dollar, should mitigate the strength in exports witnessed during the second and third quarters, causing a drag on U.S. gross domestic product.



INFLATION

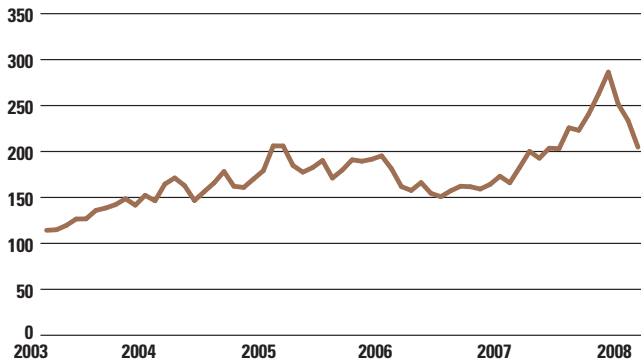
Recent inflation readings have been well above the Fed's comfort zone, with the Consumer Price Index at a 5.4% annualized rate and the Core Personal Consumption Expenditure Index at 2.2%. However, higher unemployment, falling commodity prices and the increased probability of a global recession have reduced expectations for future inflation.



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Goldman Sachs Commodity Index



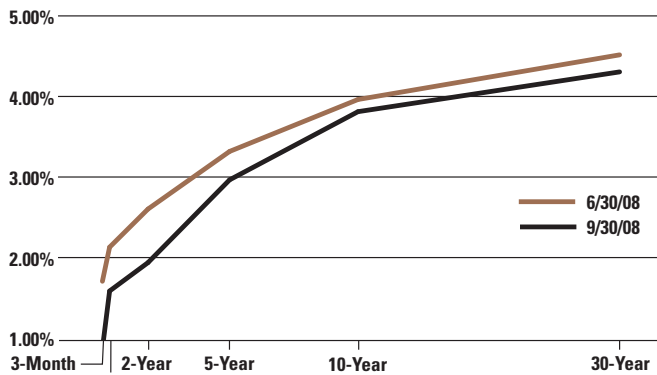
Source: Bloomberg, Goldman Sachs Commodity Index, October 2008

While inflation is expected to moderate in the near term, massive government rescue efforts in the U.S., U.K., Europe, Asia and Australia ultimately will have negative long-term inflationary implications.

INTEREST RATES

U.S. Treasury yields fell during the third quarter, mostly during September, as market attention shifted back toward the credit crisis amid the bankruptcy of a large U.S. investment bank, the Fed's special loan to AIG, and the federal takeover of two government-sponsored entities. A flight-to-quality bid for Treasuries ensued as short-maturity bonds, which are more sensitive to the Fed's rate-setting activities, led interest rates lower as the market anticipated a Fed rate cut. On several occasions during September, the yield on Treasury bills traded near 0%.

U.S. Treasury Yield Curve 6/30/08 VS. 9/30/08



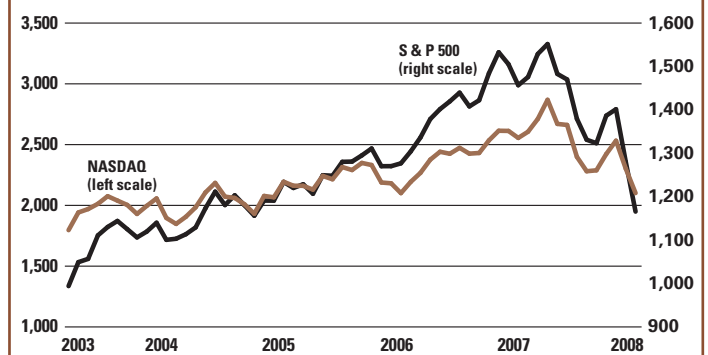
Source: Bloomberg, October 2008

In the near term, short-term interest rates will likely remain low because the Fed has shifted toward a policy of monetary easing. Further, we expect foreign central banks to deliver additional interest rate cuts. Over the intermediate to longer term, the substantial increase in the deficit will result in greater U.S. Treasury supply and, most likely, higher interest rates. During this adjustment period, money market and short-maturity bond funds will offer more stable returns with low interest rate risk.

STOCK MARKET

The stock market continued to decline during the third quarter as the financial crisis intensified. September was particularly troublesome as investors were forced to recognize that the equity value of systemically vital institutions could be effectively wiped out. The bear market was extended as the Standard & Poor's 500 Index (S&P 500) finished the quarter roughly 25% below the peak reached on October 9, 2007.

Stock Market Performance



Source: Bloomberg, October 2008

Earnings remain challenged, especially among financial institutions. Third-quarter operating earnings for the S&P 500 are expected to decline for the fifth consecutive quarter.

The spiraling of the financial crisis has forced governments across the globe to institute fiscal rescue programs of historic magnitude. Assuming these measures are adequate to stem the financial crisis, investors will be forced to re-focus on a rapidly decelerating global economy in an era where easy leverage may be hard to source. Many assets are already priced for such a scenario.

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