



Alternative to What?

Alternative investments present the next evolutionary step in portfolio construction. By adding alternative investments to an already diversified portfolio, investors add a unique dynamic to their asset allocation, and may be able to significantly lower volatility and increase returns. So why then, do they inspire their share of curiosity and questions?

Most retail investors have heard of alternatives in regard to high net worth investors or institutional investors such as pension funds and endowments which are looking for positive returns regardless of market behavior. However, many of those same retail investors would probably struggle to define exactly what an alternative investment is – other than the fact that alternatives have historically required minimum investments so sizeable that they are virtually out of reach.

It's simpler to begin with what alternative investments are not. Alternative investments are generally not found inside the traditional asset classes of stocks, bonds and cash. They are therefore unique to the vast majority of traditional investment portfolios that diversify amongst those classes and are weighted according to a client's risk tolerance and time horizon.

Additionally, alternative investments are identified by characteristics that tend to give them a lower correlation to the market, which means their movement is usually unrelated and can sometimes move in the opposite direction of the broader market. The most desired alternative investments show a tendency to participate in market rallies while providing a layer of risk management by not following the

market to downside lows. Thus alternative investments have the reputation for providing unique risk management and natural diversification – two characteristics especially attractive amid volatile market conditions similar to those that have characterized the past decade.

Lower correlation is sometimes the nature of the investment itself, but can also be the result of how the investment is managed – i.e. its strategy. Since many of these strategies can change quickly and frequently depending on market

conditions, managing alternative investments is considered more active or tactical in nature. By comparison, traditional portfolios typically rebalance quarterly or annually, and almost exclusively utilize an asset allocation strategy of buying stocks or bonds and holding them for longer periods of time regardless of short-term market conditions.

	Bonds	Cash	Commodities	Currency	Event Driven	Global	Hedge Funds	Int'l Equity	Long/Short Equity	Managed Futures	Market Neutral	Real Estate	S&P 500	Short Bias
Bonds	1.00													
Cash	0.03	1.00												
Commodities	0.02	-0.02	1.00											
Currency	-0.08	0.05	-0.01	1.00										
Event Driven	0.01	-0.03	0.64	0.25	1.00									
Global	0.27	-0.07	0.52	0.21	0.77	1.00								
Hedge Funds	0.19	-0.01	0.66	0.24	0.93	0.85	1.00							
Int'l Equity	0.29	-0.05	0.53	0.19	0.77	0.98	0.84	1.00						
Long/Short Equity	0.15	-0.00	0.60	0.32	0.90	0.86	0.92	0.87	1.00					
Managed Futures	-0.05	0.16	0.06	0.56	0.16	0.01	0.13	0.01	0.26	1.00				
Market Neutral	-0.25	0.18	0.59	0.33	0.73	0.41	0.64	0.44	0.67	0.32	1.00			
Real Estate	0.24	-0.11	0.22	0.00	0.44	0.77	0.52	0.73	0.47	-0.10	-0.03	1.00		
S&P 500	0.25	-0.09	0.40	0.18	0.69	0.96	0.76	0.90	0.75	-0.04	0.30	0.82	1.00	
Short Bias	-0.10	0.16	-0.14	-0.22	-0.40	-0.64	-0.42	-0.57	-0.52	-0.11	-0.01	-0.64	-0.69	1.00

Source: FactSet. Chart represents data from 1/2005-12/2009.

Bonds are represented by the Barclays Capital US Aggregate Bond Index. Cash is represented by the BofA Merrill Lynch LIBOR (3 M Average) Index. Commodities are represented by the S&P GSCI Total Return Index. Currency is represented by the HFRX Macro: Currency. Event Driven is represented by the Dow Jones Credit Suisse Hedge Fund Index Event Driven. Global is represented by the MSCI AC World Index - Net Return. Hedge Funds are represented by the Dow Jones Credit Suisse AllHedge Index. International Equity is represented by the MSCI EAFE - Net Return Index. Long/Short Equity is represented by the Dow Jones Credit Suisse Hedge Fund Index. Managed Futures are represented by the Dow Jones Credit Suisse Hedge Fund Index Managed Futures Index. Market Neutral is represented by the HFRI Equity Hedge: Equity Market Neutral Index. Real Estate is represented by the NAREIT Index - Total return. Short Bias is represented by the Dow Jones Credit Suisse Hedge Fund Index Dedicated Short Bias. **Past performance does not guarantee future results.**

Transamerica Funds are mutual funds advised by Transamerica Asset Management, Inc. and distributed by Transamerica Capital, Inc. While Transamerica Investments does not have the ability to predict future results, our experience helps us see beyond current fads to provide long-term investment solutions.

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A Challenging Landscape: Alternative Investments and Strategies

Alternatives include a wide array of investments and management strategies that literally span the globe. Sometimes called “niche” segments of the market, alternative investments are pursued by investors looking to construct a dynamic portfolio that seeks non-correlated returns and risk protection. However, there are still unique risks associated with employing each alternative investment strategy we will discuss, including a loss in principal. As investments, alternatives can include commodities, global real estate, or multi-sector bonds, while as strategies they may include long/short equity, market neutral, or managed futures. In short, alternatives are more than stocks and bonds, and not exclusively “buy and hold.”

Commodities have been surging in price and trading activity in recent years, partly due to their ability to produce gains and hedge against risk amid a stubborn economy, and to feed the demand of emerging markets such as China, India, Brazil, South Africa and Russia. Commodities can be real assets such as food, grains, oil, natural gas or metals. One could theoretically pay cash for gold or silver and expect delivery of gold or silver in return. While that may be attractive and reasonable for some metals, it would be unrealistic for oil or timber investors to stuff a garage with barrels of crude, or to buy their own forest. In the past, to access these assets you needed to have millions – minimally – and find a management group that would act as a broker for institutional clients. Today, commodity mutual funds provide diversified access to companies that produce, develop, and deliver certain commodities.

Investing in any one of these alternatives can be challenging for individual investors. For those wanting to invest in multiple alternatives, the challenges are compounded significantly.

Global real estate’s appeal might have been summed up long ago by author Mark Twain when he said: “Buy land – they’re not making it anymore.” While U.S. developments and properties present a robust market, by some estimates investing in global real estate more than triples the market capitalization available to investors. In the past, however, retail investors had no way to tap into offices being built in Europe, or high rises in Asia, or fashionable apartments in South America. Global real estate funds have helped open this segment of the market to the average investor by combining a diversified mix of companies to invest in. To diversify across a market so large and intricate in the past, a retail investor would need huge resources in capital and managers who understand a particular foreign country and the many economic and sometimes political factors that often dictate market performance.

Managed futures strategies deliver access to some of the most liquid and diverse markets in the world. Futures contracts can be traded around the clock on a wide variety of products including equity indices, interest rates, foreign currencies, metals, energy,

livestock and agriculture, like bushels of corn and wheat. Utilized by farmers, miners and international corporations for years, futures contracts have historically been used to hedge against future price fluctuations before goods got to market. Now these markets provide investment opportunities for retail investors. Many of these “real asset” futures contracts have little or even negative correlation to a traditional stock/bond portfolio, providing investors with increased diversification.

Multi-sector bonds are one of several funds that utilize a long-only or “opportunistic” strategy. Designed to invest across a broader spectrum of bond asset classes than more traditional or conservative fixed-income funds, these funds offer exposure to more unique – and sometimes volatile – bonds. With volatility often comes more risk. Some investors seek this kind of risk because it comes with the opportunity for more returns. Since most fixed-income investors are often looking for risk protection, a more diversified fund of bonds can increase a portfolio’s long-term potential more than traditional bond investments and – when managed ideally – still decrease overall volatility.

The long/short trading environment is common in alternative investments. In a long position, fund managers are purchasing assets they believe will increase in value, while in a short position, a fund manager is selling assets they believe will decline in value. Long/short equity funds are another prime example of alternative investments, while in market neutral funds, managers will take long and short positions simultaneously to hedge against risk and seek gains. Market conditions, a manager’s skill, and active management play crucial roles in achieving the desired risk-adjusted returns.

Investing in any one of these alternatives can be challenging for individual investors. For those wanting to invest in multiple alternatives, the challenges are compounded significantly. Finding managers who can identify the wide range of available alternative investments and their unique and complex risk/return characteristics, and then combine them in a diversified portfolio and competently manage it, is why alternatives have for years been so inaccessible to retail investors.

Looking to Endowments

Finding this kind of management skill for retail investors has not been easy or affordable. For years, those looking to diversify their portfolios with alternative investments needed to have millions to invest and a tolerance for illiquidity, little transparency and high management fees. Some high net worth investors looking for access to alternative investments have turned to hedge funds, which are not always regulated by the Security and Exchange Commission (SEC).

For years, multi-billion dollar endowments – often associated with large, prestigious colleges and universities – regularly outperformed the greater market by investing heavily in alternatives not accessible to retail clients. The Harvard Management Company, which manages the largest endowment by assets in the U.S., has posted an 11.9%

average annual return over the last 20 years¹. Over the past decade, Harvard has added 5.0% annually over and beyond the traditional portfolio split of 60% in stocks and 40% in bonds.

In the fiscal year ending June 30, 2010, with a portfolio weighted at least 52% toward alternatives (13% in private equities, 16% in absolute return and 23% in total real assets), Harvard's endowment reversed its 2009 decline and posted an 11% return to beat its benchmark of 9.4%. Said Harvard's endowment president and CEO Jane L. Mendillo in her 2010 annual report: "We continue to believe that the creation of a diversified portfolio including significant exposure to a variety of alternative assets has been a major factor in (Harvard Management Company's) long-term success."

What are investors to make of the much publicized losses endowments endured in 2009? According to an analysis in *Forbes*,² many endowments commiserated with the broader market in 2009 in part "because they weren't quite as

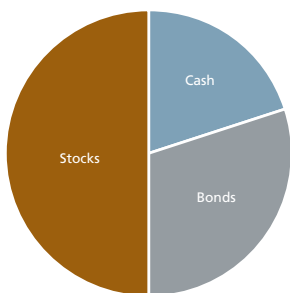
smart – or as diversified – as they'd thought."² More to the point: "Harvard loaded up on illiquid stakes in private equity partnerships, emerging-market stocks, timberland and other commodities. Then (Harvard) had little to no cash on hand to cover margin calls from creditors." While picking assets for a portfolio presents a daily challenge to every investor and manager, the losses sustained by endowments in 2009 present a lesson in the importance of diversification, as well as the importance of investing in a portfolio with liquidity.

With the exception of alternative investments structured in mutual funds, many alternative investments cannot be sold easily on the open market or converted to cash. Investors must be willing to tie up a large amount of capital for longer periods of time, during which they will often have limited or no access to their money. These are considered semi-liquid or illiquid investments, and can subject the investor – as was the case with Harvard – to substantial losses if the performance takes a turn for the worse.

The Next Evolutionary Step

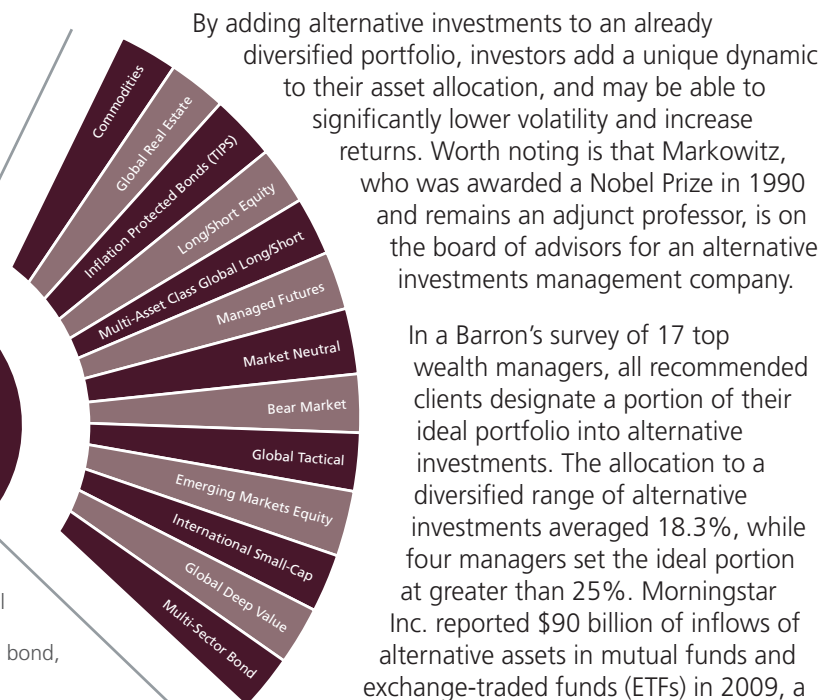
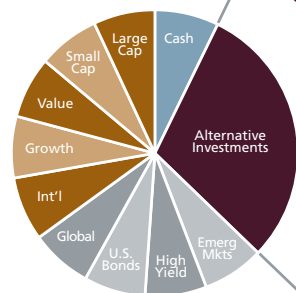
As natural diversifiers, alternative investments present the next evolutionary step in portfolio composition. Now a common principle of investing, diversification is designed to manage and reduce risk, and provide more consistent returns by investing in a variety of assets. In layman's terms, the concept is simply not putting all your eggs in one basket.

Some of that formula took shape through Nobel Prize winner Harry Markowitz, who helped pioneer the Modern Portfolio Theory in the early 1950s. The mathematical formula behind the theory sought to maximize expected return for a given amount of risk through diversification of various carefully selected and weighted assets. Diversification is designed



Portfolio representations are for illustrative purposes only. Traditional diversification is based on 50% stock, 30% bond, and 20% cash allocations. Institutional Diversification is based on 35% stock, 23% bond, 12% cash, and 30% alternative investment allocations.

Asset allocation and diversification, like all investment strategies, offers no guarantee of positive returns, and mutual funds are subject to market risk, including loss of principal.



In a Barron's survey of 17 top wealth managers, all recommended clients designate a portion of their ideal portfolio into alternative investments. The allocation to a diversified range of alternative investments averaged 18.3%, while four managers set the ideal portion at greater than 25%. Morningstar Inc. reported \$90 billion of inflows of alternative assets in mutual funds and exchange-traded funds (ETFs) in 2009, a 65% increase from the year before.³

¹ "Harvard Management Company Endowment Report: Updated Message from the CEO." October 2010.

² "Ivy League Endowment Meltdown." *Forbes*. David K. Randall and Asher Hawkins. January 29, 2010.

³ "Retirement Portfolios Need Alternatives." *Investment News*. Matt Coldren and Robert M. Hussey. September 26, 2010.

Breaking Down the Barriers

Given the extreme stock market volatility of recent years, more retail clients are looking to further diversify their portfolios by tapping into institutional-quality alternative investments, and more top financial advisors are recommending this strategy. Naturally, this demand means the barriers to alternative investments must be sufficiently addressed – namely accessibility, transparency, and liquidity.

Investing directly into alternatives poses several hurdles. First, alternative investments can present a complex and daunting challenge to any financial advisor, let alone the retail client. Finding investment experts who understand the alternatives landscape and can construct a diversified portfolio for clients is one of the reasons alternatives have been outside the mainstream for decades. Although access to certain alternative investments, such as commodities, has greatly increased over the past five years, some alternatives by themselves have a reputation of volatility. Diversification is the obvious solution, but gaining access to multiple alternatives without a costly team of knowledgeable managers remains a significant barrier.

Unlike mutual fund managers, many alternative investment managers are reluctant to share detailed information about their portfolios for fear of revealing their investment strategies to potential competitors. As stated before, many of these alternative investments are found in hedge funds. Historically, many alternative investments take on substantial leverage and offer low liquidity due to lock-up periods and the private nature of transactions. Illiquid securities naturally carry higher

risks since ready buyers cannot always be secured, which ties up an investor's money and exposes them to potential loss should they be unable to unload the assets.

A Solution

By investing in a mutual fund comprised of multiple alternative investments, retail clients can build a portfolio much like institutional investors but without high management, placement and administrative fees, in addition to foregoing high cash minimums.

Alternative investments offer a compelling layer of diversification to any portfolio.

Alternative investments offer the next chapter in the ongoing story of diversification. Think about it this way: Your portfolio may already be diversified across asset classes, but is it still largely buy & hold long-only? Alternatives can introduce diverse trading strategies that provide opportunities for positive performance in multiple market conditions. Now, more than ever before, is an excellent time for retail investors to construct a robust portfolio much like many professionals have for decades. With access to niche investments, assets with lower correlation, sophisticated investment strategies and a team of knowledgeable managers, retail investors have the ability to revamp their portfolio, increase its risk/reward profile, and keep their long-term investment strategy on track.

Shares of the Funds may only be sold by offering the Funds' Prospectus. You should consider the investment objectives, risks, charges, and expenses of the Funds carefully before investing. The Prospectus contains this and additional important information regarding the Funds. To obtain the Prospectus and/or a summary Prospectus, please contact your financial professional or go to TransamericalInvestments.com. The Prospectus should be read carefully before investing.

Transamerica Multi-Manager Alternative Strategies Portfolio seeks long-term capital appreciation and may be appropriate for investors who seek to maximize returns and who can tolerate substantial volatility in the value of their principal.

The Fund is subject to several principal investment risks, which depend mostly on the risks of the underlying funds as described below. The Fund's Prospectus contains complete and important details on the risks involved with investing in the Fund. Please read the Prospectus carefully before investing.

Global, foreign, and emerging market investing involves special considerations, including risks related to market and currency volatility, adverse social and political developments, and the relatively small size and lesser liquidity of these markets. The risks of investing in foreign securities are magnified in emerging markets.

Investments in small-sized companies present additional risks such as increased volatility, because their earnings are less predictable, their share price is more volatile, and their securities are less liquid than larger or more established companies.

Convertible securities are primarily long-term debt obligations, and for that reason are influenced by increases and decreases in interest rates and are subject to credit risk. Interest rate risk is the risk that fluctuations in interest rates will affect the price of the Portfolio's bonds. Credit risk is the risk that the issuer of the bonds within the Portfolio won't meet their payments.

Investments in high-yield bonds ("junk bonds") are subject to greater volatility and risks, because the income derived from these securities is not guaranteed and may be unpredictable.

Investments in real estate securities and real estate investment trusts ("REITs") involve special risks, such as the possible decline in value of real estate, extended vacancies, and uninsured damages from natural disasters.

Sector investing focuses on a specific industry and tends to concentrate investments in fewer securities. This may result in more volatility than the typical growth mutual fund, because while individual company stock risk is reduced through diversification, industry risk can be magnified.

Warrants and rights may be considered more speculative than other types of investments.

Hybrid instruments are potentially more volatile and may carry greater interest rate risks than traditional instruments.

Fixed income investing is subject to credit risk, inflation risk, and interest rate risk. Credit risk is the risk that the issuer of a bond won't meet their payments. Inflation risk is the risk that inflation could outpace a bond's interest income. Interest rate risk is the risk that fluctuations in interest rates will affect the price of a bond.

An investment in a money market fund is neither insured nor guaranteed by the FDIC or any government agency.

The fund's investment exposure to the commodities markets may subject the fund to greater volatility than investments in more traditional securities, such as stocks and bonds.

Both the principal value and investment returns of mutual funds will fluctuate over time so that an investor's shares, when redeemed, may be worth more or less than their original cost.