

Transamerica Small Cap Value

A | TSLAX | 04/21/2017 **C** | TSLCX | 04/21/2017 **I** | TSLIX | 04/21/2017

Investment objective

The fund seeks long-term capital appreciation.

Key facts

Investment Manager

Transamerica Asset Management, Inc. (TAM)

Morningstar Category

Small Value

Lipper Category

Small-Cap Core Funds

Dividend Frequency

Annually

Benchmark

Russell 2000® Value Index

SUB-ADVISER



Systematic Financial Management, L.P. (Systematic)

PORTFOLIO MANAGERS

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MACROECONOMIC OVERVIEW

Small cap value stocks rallied in the third quarter, as tamer-than-feared effects of shifting government policy drove a powerful rotation into the asset class. Risk aversion declined as uncertainty about tariffs and both monetary and fiscal policy abated in the quarter, prompting investors to favor small cap value stocks due to their higher operating and financial leverage in a more durable perceived economic environment. The widespread imposition of tariffs has stressed global supply chains and caused hesitancy in corporate board rooms, but the situation has proven manageable thus far. Inflation, while ticking up in recent months as tariffs have worked their way through global supply chains, has largely stabilized for now—enabling the Federal Reserve (Fed) to begin cutting short-term interest rates again. It lowered the Federal Funds rate 25 basis points in September, with 1-2 more cuts expected this fall. Ironically, the financial markets' embrace of risk in the quarter came despite accelerating weakness in the labor market, where data indicate that jobs are now being added at an alarmingly low cadence. Investors also appeared unconcerned about the prospect of a government shutdown, which did, in fact, occur as the final quarter of 2025 commenced.

FUND OVERVIEW

While the small cap rally drove solid returns on an absolute basis during the third quarter, investors' embrace of risk created some powerful headwinds for Systematic's quality-first strategy, relative to the Russell 2000® Value Index. Its strategy focuses on companies with strong free cash flow, solid balance sheets, and robust debt coverage, so the outperformance of companies characterized by high financial leverage hurt the fund's ability to match the benchmark's double-digit quarterly advance during the last three months. Amid this low-quality rally, the shares of companies generating negative free cash flow considerably outperformed. History suggests that such low-quality rallies tend to be temporary, which Systematic largely attributes to the role of passive investment vehicles seeing strong asset flows amid these small-cap rotations. Given these trends, the portfolio's underperformance relative to the Russell 2000® Value Index in the third quarter was a function of unfavorable stock selection, while sector allocation provided slight upside to returns against the benchmark. In terms of stock selection, the largest detractors from performance compared to the Index were the fund's Health Care and Information Technology stocks, while the positions in Industrials and Financials helped to limit those headwinds. With respect to sector allocation, an underweight to Financials and overweight to the Information Technology sector were key contributors in the quarter. Conversely, an underweight to Materials and an overweight to Industrials were slight drags on relative performance.

OUTLOOK

Going forward, the performance of small cap stocks as an asset class will likely remain highly correlated with the strength of the economic cycle. Systematic is closely watching companies' ability to manage through the "Liberation Day" tariffs, many of which finally went into effect this summer. This headwind may take months to flush out, given the stockpiling of inventories at pre-tariff prices throughout global supply chains. The economy's ability to assimilate higher inventory costs as they work their way through the system will be quite telling. A temporary bump to inflation readings should be anticipated as this occurs, but more concerning is where inflation expectations shake out. Consumers have been conditioned to grudgingly accept higher prices in recent years, suggesting that inflation may remain sticky in the quarters ahead. That could potentially neuter the Federal Reserve's ability to use the full scope of its monetary policy toolbox, at a time when the labor market has already begun to soften. As Systematic closely monitors the economic environment, it remains steadfast in the firm's approach, looking to invest in the attractively valued stocks of high-quality companies with solid balance sheets and strong, recurring free cash flow. While shares of high-quality companies were out of favor during the third quarter, history shows how the strong outperformance of unprofitable companies tends to be a temporary dynamic, with that trend inflecting over time. In the meantime, the manager maintains an unflinching focus on valuation and underlying company quality, preparing the portfolio for a variety of different economic and financial market scenarios in the months ahead.

All opinions, estimates, projections and security selections contained herein are those of the sub-adviser. It does not constitute investment advice and should not be used as a basis for any investment decision.

Average annual total returns and expense ratios (%)

	3M	YTD	1 YR	3 YRS	5 YRS	10 YRS	Inception	Gross	Net
Class A (at NAV)	9.80	5.00	4.88	11.71	13.86	-	5.66	1.41	1.29
Class I (at NAV)	9.80	5.08	5.12	11.99	14.16	-	5.97	1.07	0.99
Class A (at POP)	3.70	-0.79	-0.89	9.61	12.57	-	4.96	1.41	1.29
Russell 2000® Value Index	12.60	9.04	7.88	13.56	14.59	-	-	-	-

The data shown represents past performance, which is no guarantee of future results. Current performance may be lower or higher than the performance data quoted. Please see transamerica.com for performance data current to the most recent month-end. The investment return and principal value of mutual funds will fluctuate over time so that shares, when redeemed, may be worth more or less than their original cost. Net asset value (NAV) returns include reinvestment of dividends and capital gains but do not reflect the deduction of any sales charges. If a sales charge had been deducted, the results would have been lower. Public offering price (POP) returns include reinvestment of dividends and capital gains and reflect the maximum sales charge. Performance for other share classes will vary.

The Max Sales Charge for Class A shares is 5.50%. There are no sales charges for Class I shares. Class I shares are primarily offered for investment to institutional investors including, but not limited to, fee-based programs, pension plans, and certain endowment plans and foundations. The minimum investment for Class I shares is \$1,000,000 per fund account, but will be waived for certain investors.

Performance figures reflect any fee waivers and/or expense reimbursements by the Investment Manager. Without such waivers and/or reimbursements, the performance would be lower. Future waivers and/or reimbursements are at the discretion of the Investment Manager. Contractual arrangements, if any, have been made with Transamerica Asset Management, Inc. through 3/1/2026.

Top 10 holdings (%)

EMCOR Group, Inc.	2.30
Mueller Industries, Inc.	2.19
Magnolia Oil & Gas Corp., Class A	1.81
Northwestern Energy Group, Inc.	1.73
OSI Systems, Inc.	1.73
Webster Financial Corp.	1.72
LSI Industries, Inc.	1.64
Piper Sandler Cos.	1.59
Atlantic Union Bankshares Corp.	1.55
Silicon Motion Technology Corp.	1.46
Total	17.72

Holdings and weights are subject to change and are not recommendations to buy or sell a security. Holdings display excludes net other assets (liabilities).

Contributors & Detractors (%)

Leading Contributors	Contribution	Weight*	Return**
Tower Semiconductor Ltd	0.58	1.03	64.13
Comfort Systems USA Inc	0.58	1.16	54.00
Mueller Industries Inc	0.53	2.08	27.56
Leading Detractors	Contribution	Weight	Return
Nomad Foods Ltd	-0.17	0.70	-21.74
Quanex Building Products Corp	-0.18	0.70	-24.37
Progress Software Corp	-0.39	1.02	-31.19

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*Average portfolio weight for each security during the course of the quarter, calculated using daily holdings.

**The return for each security corresponds to the portion of the quarter when the fund held the security.

The Russell 2000® Value Index is an unmanaged index used as a general measure of market performance. It is not possible to invest directly into an index. Calculations assume dividends and capital gains are reinvested and do not include any managerial expenses. Russell® and other service marks and trademarks related to the Russell indexes are trademarks of the London Stock Exchange Group companies.

The price of equity securities fluctuates based on changes in a company's financial condition and overall market and economic conditions. If the market prices of the equity securities owned by the fund fall, the value of the fund will decline. Small capitalization companies may be more at risk than larger capitalization companies because, among other things, they may have limited product lines, operating history, market or financial resources, or because they may depend on limited management groups. Value stocks as a group may be out of favor and underperform the overall equity market for a long period of time, for example, while the market favors "growth" stocks. The prices of securities the sub-adviser believes are undervalued may not appreciate as anticipated or may go down.

Shares may be sold (or "redeemed") on any day the New York Stock Exchange is open for business. Proceeds from the redemption of shares will usually be sent to the redeeming shareholder within two business days after receipt in good order of a request for redemption. However, Transamerica Funds has the right to take up to seven days to pay redemption proceeds, and may postpone payment under certain circumstances, as authorized by law.

Mutual funds are subject to market risk, including loss of principal. Past performance is not indicative of future results.

Mutual funds are sold by prospectus. Before investing, consider the funds' investment objectives, risks, charges, and expenses. This and other important information is contained in the prospectus. Please visit transamerica.com or contact your financial professional to obtain a prospectus or, if available, a summary prospectus containing this information. Please read it carefully before investing.

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