

# TRANSAMERICA SMALL/MID CAP VALUE

**A** | IIVAX | 04/02/2001    **C** | IIVLX | 11/11/2002    **I** | TSVIX | 11/30/2009

## INVESTMENT OBJECTIVE

The fund seeks to maximize total return.

## KEY FACTS

<b>Investment Manager</b>	Transamerica Asset Management, Inc. (TAM)
<b>Morningstar Category</b>	Mid-Cap Value
<b>Lipper Category</b>	Mid-Cap Value
<b>Dividend Frequency</b>	Annually
<b>Primary Benchmark</b>	Russell 2500™ Value Index

## SUB-ADVISER


Systematic Financial Management, L.P.  
(Systematic)

## PORTFOLIO MANAGERS

Kenneth Burgess, CFA

## SUB-ADVISER



Thompson, Siegel &amp; Walmsley LLC (TSW)

## PORTFOLIO MANAGERS

R. Michael Creager, CFA  
Brett P. Hawkins, CFA

## MACROECONOMIC OVERVIEW

**Systematic:** The equity markets raced higher in the first quarter, supporting a solid double-digit return for Systematic's small cap free cash flow strategy. Investor sentiment improved greatly after the difficult fourth quarter, driven largely by a thaw in the trade conflict with China and the U.S. Federal Reserve's (Fed) shift to a more dovish stance on monetary policy. The Trump Administration again delayed the tariff hikes and expansion planned for March 1st, and both countries have seemingly made progress toward a deal that would remove the market overhang that precipitated the stock market's late-2018 swoon. The Fed, meanwhile, jawboned the markets higher with its intention to hold off on interest rate hikes and allow inflation to temporarily trend higher than its 2% target. Taken together, these two dynamics drove a robust V-shaped recovery for stocks. Although the economy has undoubtedly slowed from the stimulus-infused growth of a year ago, it remains on the same muted, but sustained, long-term growth trend that has been in place for much of the past decade.

**TSW:** The market experienced a significant bounce back from December, with all domestic equity indices posting impressive double-digit returns for the quarter. There was a clear sign of the January effect taking place, as the December sell-off appeared to be more pronounced due to tax loss harvesting and industry redemptions which reversed in the beginning of the year. While January was more about a bounce back, February and March appeared to be an environment where lower quality names and stocks trading at higher valuation multiples outperformed. From a style perspective, mid-caps and growth stocks performed best. While macro noise continues to present an overhang on the market, the more dovish posture from the Fed has arguably helped support risk markets.

## FUND OVERVIEW

**Systematic:** While the small cap free cash flow strategy for Transamerica Small/Mid Cap Value certainly benefited from the bullishness on an absolute basis, it was unable to keep pace with the Russell 2000® Value Index in the quarter. Systematic temporarily experienced this difficulty during past periods of extremely bullish investor behavior. During such times, investors do not tend to differentiate among individual stocks on the basis of underlying company fundamentals, eschewing such factors for a broader "buy the market" trade. Accordingly, some of our fundamental tenants, like strong balance sheets, sustainable cash flows, and attractive valuations, failed to show efficacy in the quarter. For the quarter, stock selection had a negative impact on Systematic's relative performance, due to these strategic headwinds. Systematic positions in the information technology and health care sectors underperformed versus the benchmark, while those within the industrials and consumer discretionary sectors outperformed. Overall, sector allocation had minimal impact on Systematic's performance relative to the index. Systematic's underweight to the financial sector added to their relative performance, while an overweight to the industrials sector was a headwind for the strategy.

**TSW:** The fund finished the quarter below the benchmark. The fund had a great start to the year through early February, benefitting from a generally positive environment and a reversal from stocks being unduly punished in December as the January effect appeared to take hold. The rest of the quarter posed a more challenging stylistic headwind as valuation did not appear to matter and lower quality stocks outperformed. Despite this headwind, we were able to keep pace with the benchmark in a strong bull quarter where the Russell Midcap® Value Index returned 14.37%. From a sector standpoint, the fund benefited most from consumer discretionary, consumer staples, and technology, all driven by positive stock selection. For detractors, our lower beta oil exposure impacted us the most within the energy sector. In financial services our insurance names posed a modest headwind, while in producer durables our position in Alaska Air Group, Inc. (1.12% as of 3/31/19) was a detractor as oil prices spiked.

## OUTLOOK

**Systematic:** Looking ahead, Systematic continues to monitor ongoing geopolitics, including the U.S.-China negotiations and the potential for a poorly executed Brexit. Absent a global shock of great magnitude, the U.S. economy should remain on firm footing. There has been a fair bit of uncertainty in corporate boardrooms amid the protectionist rhetoric of the last year, suggesting that a resolution could catalyze a pickup in investment activity. That said, Systematic remains in the later innings of the current expansion, which has recently entered its eleventh year. While the economic cycle should continue in 2019, earnings growth is likely to be moderate going forward. In the past, such a late-cycle deceleration has prompted investors to become more discerning among individual stocks than they were during the first-quarter euphoria. While the debt and equity markets are wide open today for companies that require financing, in time capital providers are also likely to become more stringent about where they put money to work. Systematic's portfolio is set up nicely for such an environment, given their focus on sustainable cash flows, strong balance sheets, and attractive valuations. In closing, Systematic continues to employ their rigorous, bottom-up investment process with conviction in their ability to deliver their clients the strong relative performance they have entrusted Systematic to provide in the months, quarters, and years ahead.

**TSW:** Investors have appeared to shrug off ongoing headwinds such as uncertainty around trade negotiations, continued mixed results in forward leading indicators and the potential for an inverted yield curve. This is all within the context of an already expensive market as TSW sits in year 10 of what is considered by many measures to be the longest bull market in history. This backdrop leads TSW to believe investor expectations are high which increases the potential for disappointment and further market volatility. As always, TSW will maintain its disciplined approach to value investing and buy/sell stocks opportunistically whichever way the market swings.

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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.

# TRANSAMERICA SMALL/MID CAP VALUE

as of 03/31/2019

## AVERAGE ANNUAL TOTAL RETURNS (%)

	3M	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Class A (at NAV)	12.93	12.93	1.05	11.12	6.52	15.77	11.01
Class I (at NAV)	13.02	13.02	1.40	11.49	6.88	-	12.85
Class A (at POP)	6.70	6.70	-4.52	9.05	5.32	15.12	10.66
Russell 2500™ Value Index	13.12	13.12	1.84	9.85	6.02	15.03	-

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](http://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.

## FEES (%)

	A	C	I
Gross Expense Ratio	1.29	1.96	0.94
Net Expense Ratio	1.29	1.96	0.94

The Max Sales Charge for Class A shares is 5.50%. There are no sales charges for Class I. 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 03/01/2020.

## CONTRIBUTORS & DETRACTORS (%)

Leading contributors	Contribution	Weight	Return
Coty Inc Class A	0.43	0.55	77.29
Williams Companies Inc	0.34	1.10	32.09
CIT Group Inc	0.33	1.29	26.00
Leading detractors	Contribution	Weight	Return
Uniti Group Inc	-0.10	0.38	-27.81
United Fire Group Inc	-0.12	0.47	-20.67
PG&E Corp	-0.21	0.32	-23.33

Source: Morningstar Direct

## TOP 10 HOLDINGS (%)

Leidos Holdings, Inc.	1.55
Molson Coors Brewing Co., Class B	1.55
Annaly Capital Management, Inc., REIT	1.51
CDK Global, Inc.	1.44
Laboratory Corp. of America Holdings	1.37
PPL Corp.	1.35
CIT Group, Inc.	1.28
FirstEnergy Corp.	1.27
Viacom, Inc., Class B	1.22
Allegheny Corp.	1.21
<b>Total</b>	<b>13.75</b>

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

The Russell 2500™ 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 Investment Group is the source and owner of the trademarks, service marks, and copyrights related to the Russell indexes. Russell® is a trademark of Russell Investment Group.

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 have less experienced management, unpredictable earnings growth, and limited product lines, which can cause their share prices to fluctuate more than those of larger firms. Value investing carries the risk that the market will not recognize a security's intrinsic value for a long time or that a stock considered undervalued. 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 three 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 go to [www.transamerica.com](http://www.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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