

TRANSAMERICA INCOME SHARES INC  
Form DEF 14A  
May 20, 2005  
SCHEDULE 14A

(Rule 14a-101)

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934**

Filed by the Registrant  X

Filed by a Party other than the Registrant  O

Check the appropriate box:

- |                                       |  |                            |   |
|---------------------------------------|--|----------------------------|---|
| <input type="checkbox"/> O            | Preliminary proxy statement.                                   | <input type="checkbox"/> O | Confidential, for use of the Commissioner only (as permitted by Rule 14a-6(e)(2). |
| <input checked="" type="checkbox"/> X | Definitive proxy statement.                                    |                            |   |
| <input type="checkbox"/> O            | Definitive additional materials.                               |                            |   |
| <input type="checkbox"/> O            | Soliciting material pursuant to Rule 14a-11(c) or Rule 14a-12. |                            |   |

**Transamerica Income Shares, Inc.**

(Name of Registrant as Specified in its Charter)

**N/A**

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- |                                       |  |
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| <input checked="" type="checkbox"/> X | No fee required.   |
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(1) Title of each class of securities to which transaction applies: **N/A**

(2) Aggregate number of securities to which transaction applies: **N/A**

(3) Per unit price or other underlying value of transaction computed pursuant to Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined): **N/A**

(4) Proposed maximum aggregate value of transaction: **N/A**

(5) Total fee paid: **\$0**

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid: **N/A**

(2) Form, Schedule or Registration Statement No.: **N/A**

(3) Filing Party: **N/A**

(4) Date Filed: **N/A**

**TRANSAMERICA INCOME SHARES, INC.**

**570 CARILLON PARKWAY**

**ST. PETERSBURG, FL 33716**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**to be Held July 7, 2005**

To the Shareholders of Transamerica Income Shares, Inc.:

Notice is hereby given that the Annual Meeting of Shareholders of Transamerica Income Shares, Inc. (the Fund ) will be held on July 7, 2005, at 570 Carillon Parkway, St. Petersburg, FL 33716, beginning at 9:00 a.m., Eastern Time, or as adjourned from time to time (the Meeting ). At the Meeting, shareholders of the Fund will be called upon to consider the following proposals:

PROPOSAL 1: To elect nine Directors to the Board of Directors.

PROPOSAL 2: To approve the elimination of the Fund's fundamental investment restriction against investing in restricted securities.

PROPOSAL 3: To conduct such other business as may properly come before the Meeting.

After careful consideration, the Directors of the Fund unanimously approved and recommend that you vote For Proposals 1 and 2. Shareholders of record as of the close of business on April 28, 2005 are entitled to vote at the Meeting. Each share is entitled to one vote, with fractional votes for fractional shares.

By Order of the Board of Directors of Transamerica Income Shares, Inc.,

John K. Carter, Esq.

Senior Vice President, Secretary

and General Counsel

May 24, 2005

*Your vote is very important regardless of the number of shares that you owned on the Record Date. Shareholders who do not expect to attend the Meeting are requested to complete, sign, date and return the accompanying Proxy in the enclosed envelope, which needs no postage if mailed in the United States, or follow the enclosed instructions relating to Internet or telephone voting. Instructions for the proper execution of the Proxy are set forth in the enclosed materials. It is important that proxies be returned promptly. Whether or not you plan to attend the Meeting, please complete the enclosed Proxy, or vote using the Internet or by telephone. If you vote via the Internet or by telephone, please do not return your Proxy unless you later decide to change your vote.*

## PROXY STATEMENT

### TRANSAMERICA INCOME SHARES, INC.

### ANNUAL MEETING OF SHAREHOLDERS

July 7, 2004

## INTRODUCTION

This Proxy Statement is furnished in connection with the solicitation of Proxies by the Board of Directors (the Board or Directors) of Transamerica Income Shares, Inc. (the Fund or TIS), a closed-end management investment company organized as a Maryland corporation, for use at the Annual Meeting of Shareholders of the Fund to be held at 9:00 a.m. on July 7, 2005, at 570 Carillon Parkway, St. Petersburg, FL 33716, and any adjournments thereof (the Meeting). The Board is soliciting Proxies from shareholders of the Fund with respect to the proposals set forth in the accompanying Notice. A Proxy also accompanies this Proxy Statement. It is anticipated that Proxies and Proxy Statements will first be mailed to shareholders on or about May 24, 2005.

**Shareholder Reports.** The Fund's most recent annual report for the year ended March 31, 2005, is mailed with this proxy statement, and is available to you upon request without charge from the Fund's transfer agent, Mellon Investor Services, Inc., Overpeck Centre, 85 Challenger Road, Ridgefield Park, NJ 07660; telephone toll free: 1-800-288-9541.

## PROPOSAL I

### ELECTION OF DIRECTORS

Shareholders are asked to consider the election of nine Nominees as Directors of the Fund. Eight of the Nominees have previously been elected as Directors by Fund shareholders. The ninth Nominee, Mr. John W. Waechter, was recently elected Director by the Board based on, among other factors: the qualification and experience of Mr. Waechter, including the experience of accounting matters that Mr. Waechter brings to the Board; his experience working with financial statements; and his understanding of internal controls and procedures for financial reporting. Mr. Waechter is not an interested person (as that term is defined for legal purposes) of the Fund and, accordingly, qualifies as an Independent Director, and serves as audit committee financial expert (as that term is defined for legal purposes) on the Audit Committee of the Board. Each Nominee has indicated his or her willingness to serve as Director, if elected.

The persons named as proxies intend to vote to elect the Nominees, unless authority to vote for the election of all or specified Nominees is withheld by so marking the Proxy. If any Nominees are unable to serve, the persons named as proxies may vote for other persons or vote to fix the number of Directors at less than nine. Election is by a majority vote of the shares represented at the Meeting.

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The term "fund complex" in the tables below consists of the Fund, AEGON/Transamerica Series Trust ( "ATST" ) and Transamerica IDEX Mutual Funds ( "TA IDEX" ). The mailing address of each Nominee is 570 Carillon Parkway, St. Petersburg, Florida 33716. The name, age and principal occupation for the past five years of the Nominees are:

**Independent Director Nominees:**

NAME AND AGE	POSITION(S) HELD WITH FUND	TERM OF OFFICE AND LENGTH OF TIME SERVED	PRINCIPAL OCCUPATION OR EMPLOYMENT IN THE PAST 5 YEARS	NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY NOMINEE FOR DIRECTOR	OTHER DIRECTORSHIPS HELD BY NOMINEE FOR DIRECTOR
Peter R. Brown (DOB 5/10/28)	Nominee, Director	1986 to present	Chairman of the Board, Peter Brown Construction Company (1963- 2000); Chairman & Trustee, Transamerica IDEX Mutual Funds ( TA IDEX ), AEGON/Transamerica Series Trust ( ATST ); Chairman & Director, TIS; Rear Admiral (Ret.) U.S. Navy Reserve, Civil Engineer Corps.	84	N/A
Charles C. Harris (DOB 1/15/30)	Nominee, Director	1986 to present	Trustee, TA IDEX, ATST; Director, TIS.	84	N/A
Russell A. Kimball, Jr. (DOB 8/17/44)	Nominee, Director	1986 to present	Trustee, TA IDEX, ATST; Director, TIS; General Manager, Sheraton Sand Key Resort (1975 present).	84	N/A
William W. Short, Jr. (DOB 2/25/36)	Nominee, Director	2000 to present	Trustee, TA IDEX, ATST; Director, TIS; Retired Corporate CEO & Chairman of the Board.	84	N/A
Daniel Calabria (DOB 3/05/36)	Nominee, Director	2001 to present	Trustee, TA IDEX, ATST; Director, TIS; Trustee (1993-present) & President (1993-1995), Florida Tax Free Funds.	84	N/A
Janice B. Case (DOB 9/27/52)	Nominee, Director	2001 to present	Trustee; TA IDEX, ATST; Director, TIS; Senior Vice President (1996-2000), Vice President (1990-1996), Director of Customer Service & Marketing (1987-1990), Florida Power Corporation; Director, Central Vermont Public Service Co. (Audit Committee); Director, Western Electricity Coordinating Council (Chairman, Human Resources and Compensation Committee).	84	Central Vermont Public Service Co.

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Leo J. Hill (DOB 3/27/56)	Nominee, Director 2002  to present	Trustee, TA IDEX, ATST; Director, TIS; Owner & President, Prestige Automotive Group (2001 present); Market President (1997-1998), NationsBank; President & CEO (1994-1998), Barnett Bank of the Treasure Coast, FL.	84	N/A
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John W. Waechter  (DOB 2/25/52)	Nominee, Director 2004  to present	Director, TIS (2005 - present); Trustee, 84 ATST, TA IDEX (2005 - Present); Executive Vice President, Chief Financial Officer, Chief Compliance Officer, William R. Hough & Co. (1979-2004), Treasurer (1993-2004) The Hough Group of Funds.	N/A
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**Interested Director  
Nominees\*:**

Thomas P. O Neil <sup>(1)</sup>  (DOB 3/11/58)	Nominee, Director 2003  to present	President, AEGON Financial Services 84 Group, Inc., Financial Institution Division; Trustee, TA IDEX, ATST; Director, TIS; Director, National Aquarium of Baltimore.	N/A
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*(1) Such Nominee may be deemed an interested person of the Fund as that term is defined for legal purposes due to his affiliations with affiliates of the Fund's investment adviser.*

\* Brian C. Scott resigned as a Director on May 1, 2005.

The Board of Directors met 5 times during the fiscal year ended March 31, 2005.

**Nominee Ownership of Equity Securities**

As of December 31, 2004, the Nominees beneficially owned shares of the Fund and any of the funds overseen by the Nominee in the same family of investment companies as set forth in the following table:

Name of Nominee	Dollar Range of Equity Securities in the Fund	Aggregate Dollar Range of Equity Securities in all Funds Overseen by Nominee in Family of Investment Companies*
Peter R. Brown	\$1 - \$10,000	Over \$100,000
Daniel Calabria	\$1 - \$10,000	Over \$100,000
Janice B. Case.	\$0	Over \$100,000
Charles C. Harris.	\$0	Over \$100,000
Leo J. Hill	\$0	Over \$100,000
Russell A. Kimball, Jr.	\$0	Over \$100,000
Thomas P. O Neil <sup>(1)</sup>	\$0	\$0
William W. Short, Jr.	\$0	Over \$100,000
John W. Waechter	\$10,001 - \$50,000	Over \$100,000

\* The family of investment companies consists of the Fund, ATST and TA IDEX.

*(1) Such Nominee may be deemed an interested person of the Fund, as discussed above.*

**Committees**

*The Audit Committee*

The Fund has a standing Audit Committee, that currently consists of Peter R. Brown, Charles C. Harris, Russell A Kimball, Jr., William W. Short, and John W. Waechter, each of whom is an Independent Director and qualifies as an independent director for purposes of New York Stock Exchange Listing Standards. Mr. Brown currently serves as

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chairman of the Audit Committee. The functions performed by the Audit Committee include the approval and recommendation for appointment of the independent public accountants for the Fund, the review of the scope and results of audit services, the review of the adequacy of internal accounting and financial controls, determining the independence of the public accounting firm and ensuring the rotation of its partners, meeting with the Fund's internal auditor, frequent meetings with Management to discuss the financial statements of the Funds, and the review of material changes in accounting principles and practices and other matters when requested from time to time by the Board. The Audit Committee met 4 times during the fiscal year ended March 31, 2005.

The Board has adopted a written charter for the Fund's Audit Committee, which appears as Appendix B to this proxy statement.

The Audit Committee has reviewed and discussed the audited financial statements for the fiscal year ended March 31, 2005 with Fund management, and discussed certain matters with the Fund's independent public accountant addressed by Statement on Auditing Standards No. 61. The Audit Committee has received written disclosures and the letter required by Independence Standards Board No. 1 from the Fund's independent public accountant and has discussed with the independent public accountant its independence. Based on the foregoing, the Audit Committee recommended to the Board of Directors that the Fund's audited financial statements be included in the Fund's Annual Report for the fiscal year ended March 31, 2005 for filing with the SEC.

### *The Nominating Committee*

The Board's Nominating Committee recommends nominations for membership on the Board. It evaluates candidates' qualifications for Board membership and, with respect to nominees for positions as Independent Directors, their independence from the Fund's investment adviser and other principal service providers. The Committee generally meets annually to identify and evaluate nominees for Director and to make its recommendations to the Board, and at such other times as a nomination may be required. The Nominating Committee also periodically reviews director compensation and will recommend any appropriate changes to the Board as a group. The members of the Fund's Nominating Committee are Messrs. Brown, Harris and Kimball, each an independent director for the purposes of the New York Stock Exchange Listing Standards. Mr. Brown currently serves as chairman of the Nominating Committee. The Board of Directors has a Nominating Committee charter, a copy of which is included as Exhibit C to this proxy statement.

While the Nominating Committee is solely responsible for the selection and nomination of potential candidates to serve on the Boards, the Nominating Committee may consider and evaluate nominations properly submitted by shareholders of the Fund. Nominations proposed by shareholders will be properly submitted for consideration by the Committee only if shareholder submits their considerations in accordance with the qualifications and procedures set forth in the charter of the Nominating Committee. It is in the Nominating Committee's sole discretion whether to seek corrections of a deficient submission or to exclude a nominee from consideration.

A candidate for nomination as Director submitted by a shareholder will be deemed to be properly submitted to the Nominating Committee for its consideration if the following requirements have been met and procedures followed:

1. Each eligible shareholder or shareholder group may submit no more than one nominee each calendar year.
2. The nominee must satisfy all qualifications provided below and in the Fund's organizational documents, including qualification as a possible Independent Director if the nominee is to serve in that capacity.

The nominee may not be the nominating shareholder, a member of the nominating shareholder group or a member of the immediate family of the nominating shareholder or any member of the nominating shareholder group.

Neither the nominee nor any member of the nominee's immediate family may be currently employed or employed within the year prior to the nomination by any nominating shareholder entity or entity in a nominating shareholder group.



Neither the nominee nor any immediate family member of the nominee is permitted to have accepted directly or indirectly, during the year of the election for which the nominee's name was submitted, during the immediately preceding calendar year, or during the year when the nominee's name was submitted, any consulting, advisory, or other compensatory fee from the nominating shareholder or any member of a nominating shareholder group.

The nominee may not be an executive officer, director or person fulfilling similar functions of the nominating shareholder or any member of the nominating shareholder group, or of an affiliate of the nominating shareholder or any such member of the nominating shareholder group.

The nominee may not control the nominating shareholder or any member of the nominating shareholder group (or, in the case of a holder or member that is a fund, an interested person of such holder or member as defined by Section 2(a)(19) of the Investment Company Act of 1940).

A shareholder or shareholder group may not submit for consideration a nominee which has previously been considered by the Nominating Committee.

3. In order for the Nominating Committee to consider shareholder submissions, the following requirements must be satisfied regarding the shareholder or shareholder group submitting the proposed nominee:

Any shareholder or shareholder group submitting a proposed nominee must beneficially own, either individually or in the aggregate, more than 5% of the Fund's securities that are eligible to vote both at the time of submission of the nominee and at the time of the Board member election. Each of the securities used for purposes of calculating this ownership must have been held continuously for at least two years as of the date of the nomination. In addition, such securities must continue to be held through the date of the meeting.

The nominating shareholder or shareholder group must also bear the economic risk of the investment.

The nominating shareholder or shareholder group must also submit a certification which provides the number of shares which the person or group has (a) sole power to vote or direct the vote; (b) shared power to vote or direct the vote; (c) sole power to dispose or direct the disposition of such shares; and (d) shared power to dispose or direct the disposition of such shares. In addition the certification shall provide that the shares have been held continuously for at least two years.

4. Shareholders or shareholder groups submitting proposed nominees must substantiate compliance with the above requirements at the time of submitting their proposed nominee as part of their written submission to the attention of the Funds' Secretary, who will provide all submissions to the Nominating Committee. This submission to the Funds must include:

the shareholder's contact information;

the nominee's contact information and the number of applicable Fund shares owned by the proposed nominee;

all information regarding the nominee that would be required to be disclosed in solicitations of proxies for elections of directors required by Regulation 14A under the Securities Exchange Act of 1934; and

a notarized letter executed by the nominee, stating his or her intention to serve as a nominee and be named in a Fund's proxy statement, if so designated by the Committee and the Fund's Board.

The Nominating Committee will consider all submissions meeting the applicable requirements stated herein that are received by December 31 of the most recently completed calendar year.

In addition, the Nominating Committee considers that no nominee, whether nominated by the Nominating Committee or a shareholder may serve unless the Nominating Committee, in consultation with legal counsel, has determined that the nominee, if elected as a Director, would not cause the Fund to be in violation of or not in compliance with (a) applicable law, regulation or regulatory interpretation, (b) the Fund's organizational documents, or (c) any policy adopted by the Board regarding either the retirement age of any Board member or the percentage of a Board that would be composed of Independent Directors. Also, each nominee should possess the following attributes: public or private sector stature sufficient to instill confidence; high personal and professional integrity; good business sense; ability to commit the necessary time to prepare for and attend meetings of the Board; no financial dependence on Director retainer and meeting fees.

The Nominating Committee does not currently contemplate adding Board members or otherwise changing the Board's composition. Nominees are recommended by Board members or Fund management and evaluated based on certain criteria relating to their background, education, understanding and experience in the financial and investment industry; as well as character, integrity and commitment.

The Nominating Committee met 2 times during the fiscal year ended March 31, 2005. No nominee recommendations have been received by the Committee from shareholders.

#### *Governance Committee*

The Board has recently established a Governance Committee. Mr. Calabria currently serves as chairman of the Governance Committee. Messrs. Short and Kimball also serve as members of the Governance Committee. The Governance Committee provides oversight and monitors certain issues, in consultation with the Chief Compliance Officer and independent directors' counsel, that affect the duties of independent members of the Board. The Governance Committee intends to meet periodically, as necessary. As a recently formed committee, the Governance Committee did not meet during the most recently completed fiscal year.

#### *Compensation Committee*

The Board has a Compensation Committee. Mr. Harris and Ms. Case currently serve as co-chairs of the Compensation Committee, and Messrs. Brown, Calabria, Hill, Kimball, Short and Waechter also serve as members of the Compensation Committee. The Compensation Committee reviews compensation arrangements for each Director. The Compensation Committee meets periodically, as necessary. The Compensation Committee did not meet during the most recently completed fiscal year.

#### *Valuation Oversight Committee*

The Board has recently established a Valuation Oversight Committee. Mr. Hill currently serves as chairman of the Valuation Oversight Committee, and Messrs. Harris and Short also serve as members of the Valuation Oversight Committee. The Valuation Oversight Committee oversees the process by which the Fund calculates its net asset value to verify consistency with the Fund's valuation policies and procedures, industry guidance, interpretative positions issued by the SEC and its staff, and industry best practices. The Valuation Oversight Committee intends to meet periodically, as necessary. The Valuation Oversight Committee met 2 times during the most recently completed fiscal year.

*Proxy Voting Committee*

The Board has recently established a Proxy Voting Committee. Ms. Case currently serves as chairperson of the Proxy Voting Committee, and Messrs. Hill and Short also serve as members of the Proxy Voting Committee. The Proxy Voting Committee provides TIS's consent to vote in matters where TFAI seeks such consent because of a conflict of interest that arises in connection with a particular vote, or for other reasons. The Proxy Voting Committee also may

review TFAI's proxy voting policies and procedures in lieu of submission of the policies and procedures to the entire Board for approval. The Proxy Voting Committee intends to meet periodically, as necessary. As a recently formed committee, the Proxy Voting Committee met once during the most recently completed fiscal year.

*Contract Renewal Committee*

The Board has recently formed a Contract Renewal Committee. Mr. Kimball currently serves as chairman of the Contract Renewal Committee, and Mr. Calabria and Ms. Case also serve as members of the Contract Renewal Committee. The Contract Renewal Committee provides oversight of TIS contracts to ensure that the interests of the Fund's shareholders are served by the terms of these contracts. The Contract Renewal Committee intends to meet periodically, as necessary. As a recently formed committee, the Contract Renewal Committee met once during the most recently completed fiscal year.

**Remuneration of Directors**

The Fund pays each Independent Director an annual retainer of \$1,500 plus \$1,000 for each regular Board meeting attended in person and \$1,000 for each such meeting attended telephonically. The Fund also reimburses each Director for reasonable expenses incurred in connection with such meetings. For the fiscal year ended March 31, 2005, the Independent Directors, as a group, received compensation in the amount of \$54,000.

The following table sets forth the compensation paid to each Independent Director of the Fund for the fiscal year ended March 31, 2005. Directors who are interested persons of the Fund do not receive any compensation from the Fund.

<b>Name</b>	<b>Aggregate Compensation from Fund</b>	<b>Total Compensation from Fund and Fund Complex</b>
Peter R. Brown	\$13,000	\$185,000.00
Charles C. Harris	\$6,500	\$158,500.00
Russell A. Kimball, Jr.	\$6,500	\$135,500.00
William W. Short, Jr.	\$6,250	\$158,250.00
Daniel Calabria	\$6,000	\$140,000.00
Janice B. Case	\$6,250	\$149,250.00
Leo J. Hill	\$6,250	\$149,250.00
John W. Waechter	\$3,250	\$42,250.00

**Shareholder Communications with the Board**

Shareholders may mail written communications to the Board, addressed to the care of the Secretary of the Fund, at the Fund's address. Each shareholder communication must (i) be in writing and be signed by the shareholder, (ii) identify the full name of the Fund. The Secretary is responsible for collecting, reviewing and organizing all properly submitted shareholder communications. Except as provided below, with respect to each properly submitted shareholder communication, the Secretary will either (i) provide a copy of the communication to the Board at the next regularly scheduled Board meeting or (ii) if the Secretary determines that the communication requires more immediate attention, forward the communication to the Board promptly after receipt. The Secretary may, in good faith, determine that a shareholder communication should not be provided to the Board because the communication, among other things, (i) does not reasonably relate to the Fund or its operations, management, activities, policies, service providers, Board, officers, shareholders or other matters relating to an investment in the Fund, or (ii) is ministerial in nature (such as a request for Fund literature, share data or financial information). The Fund does not have a policy with regard to attendance at the Fund's annual shareholder meeting and no Director attended last year's annual shareholder meeting.





**Fund Officers**

The following table shows the executive officers of the Fund, other than shown above, their date of birth, positions with the Fund and principal occupations during the past five years:

<b>Name</b>	<b>Position(s) Held with Fund</b>	<b>Term of Office and Length of Time Served(1)</b>	<b>Principal Occupation during the Past Five Years</b>
Brian C. Scott (DOB 1/19/44)	President and Chief Executive Officer	From 2002 to present	Director, President and Chief Executive Officer, TA IDEX, ATST; Director, Chairman & President; Director, President & CEO, Endeavor Management Co. (2001-2002); President, Director & Chief Executive Officer, Transamerica Fund Advisors, Inc., AEGON/Transamerica Investor Services & AEGON/Transamerica Fund Services, Inc.; Chief Executive Officer, Transamerica Investors, Inc. ( TII )
John Carter (DOB 4/24/61)	Senior Vice President, Secretary, General Counsel & Chief Compliance Officer	From 2002 to present	General Counsel, Senior Vice President & Secretary, TA IDEX and ATST; Director, General Counsel, Senior Vice President & Secretary, and ATFS, TFAI; Vice President, AFSG Securities Corporation; Vice President, Secretary, TII
Kim Day (DOB 8/2/55)	Senior Vice President, Treasurer & Principal Accounting Officer	From 2002 to present	Senior Vice President, Treasurer & Principal Financial Officer, TA IDEX and ATST; Senior Vice President & Treasurer, ATFS, TFAI and TII

(1) *The executive officers are elected and appointed by the Directors and hold office until they resign, are removed or are otherwise disqualified to serve.*

***The Board of Directors of the Fund, including the Independent Directors, recommends that shareholders vote For Proposal I.***

**PROPOSAL II****ELIMINATION OF FUNDAMENTAL INVESTMENT RESTRICTION**

Applicable law requires the Fund to adopt fundamental investment restrictions with respect to several specific types of activities and also permits the Fund to designate any of its other policies as fundamental policies, as the Fund deems necessary or desirable. The Fund's prospectus, dated November 9, 1972, shows that the Fund found desirable, at the time, to designate as a matter of fundamental policy that the Fund will not knowingly purchase securities subject to legal or contractual restrictions on resale, or securities which may be sold publicly only if thereafter registered under the Securities Act of 1933.

In order to modify or eliminate the Fund's fundamental investment restriction, applicable law requires that the change be approved by a majority of the Fund's outstanding shares. As further discussed below, the Board believes that it is

appropriate to eliminate this investment restriction, which is not required by applicable law, and which may result in operating inefficiencies and prevent the Fund from taking advantage of certain investment opportunities.

*Why are shareholders being asked to approve the elimination of this investment restriction?*

The Fund's current investment restriction on investment in securities which may be considered "restricted" for legal purposes is more prohibitive than the requirements of applicable law. This restriction also limits the investment strategies employed with respect to the Fund, thereby resulting in inefficiencies and inability to take advantage of certain investment opportunities. In particular, the restriction could be interpreted as prohibiting certain of the investment strategies that closed-end investment companies such as the Fund frequently use and that the Fund may have used in the past and may want to use again in the future.

As evidenced by the date of the Fund's prospectus, this investment restrictions can be traced back to business or industry conditions that were in effect when the Fund was organized over 30 years ago. These conditions have been made less restrictive over time, and no longer justify maintaining the Fund's old investment restriction.

*What effect will the proposed elimination of this investment restrictions have on the Fund?*

While Proposal II is intended to provide greater flexibility in managing the Fund's portfolio, should shareholders approve the proposal, the Fund would continue to be managed subject to the limitations imposed by applicable law, as well as its current investment objectives and strategies. Neither TFAI nor the Fund's sub-adviser, Transamerica Investment Management, LLC ("TIM"), presently intend to alter the way the Fund is managed, nor do they believe that the proposed change will materially affect the investment risk associated with the Fund.

*Evaluation of Proposal II by the Board.*

Because of the opportunity afforded by the Meeting, the Board has reviewed the Fund's fundamental investment restriction on investments in securities which may be considered "restricted" for legal purposes with the goal of simplifying and modernizing to the extent practicable the investment strategies of the Fund. The Board believes that eliminating the Fund's fundamental restriction will enhance the ability to manage the Fund's assets efficiently in changing regulatory and investment environments. The proposed elimination of the fundamental restriction will allow the Fund greater investment flexibility to respond to future investment opportunities. The Board does not anticipate, however, that the change will result in a material change in the level of investment risk associated with an investment in the Fund. Due to these and other considerations, the Board recommends that Fund shareholders approve the elimination of the Fund's fundamental investment restriction, as described above.

***The Board of Directors of the Fund, including the Independent Directors, recommends that shareholders vote For Proposal II.***