Goldman Sachs

Asset Management

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Going Beyond the Alerian Index

Energy & Infrastructure Team

Goldman Sachs Asset Management (GSAM)

We believe an active approach with a focus on MLPs that reside outside of the index is necessary today.

Executive Summary

While we remain constructive on the master limited partnership (MLP) asset class, we believe investors should be increasingly mindful of its evolution and the potential challenges that now exist. The energy landscape is much different today than it was in the past; it's become larger, more complex, and has seen a wider dispersion between the "haves" and the "have nots." In this paper, we will offer a perspective on:

- The evolution of the MLP universe
- The importance of size and vintage that can often lead to out of Alerian Index MLPs outperforming
- How rigorous fundamental analysis can add value, particularly today

We believe this approach may lead to better total returns and potentially lower risk, especially in a rising rate environment, over the long-term.

The MLP universe has evolved

The Alerian Index is comprised of the top 50 most prominent MLPs in the industry. This methodology worked many years ago when the industry was comprised of fewer companies. Today, the market is much larger than what is captured by the Alerian Index. Additionally, the index has become heavily concentrated in only a few companies, with the top 5 MLP names in the Alerian Index comprising nearly 45% of the index.

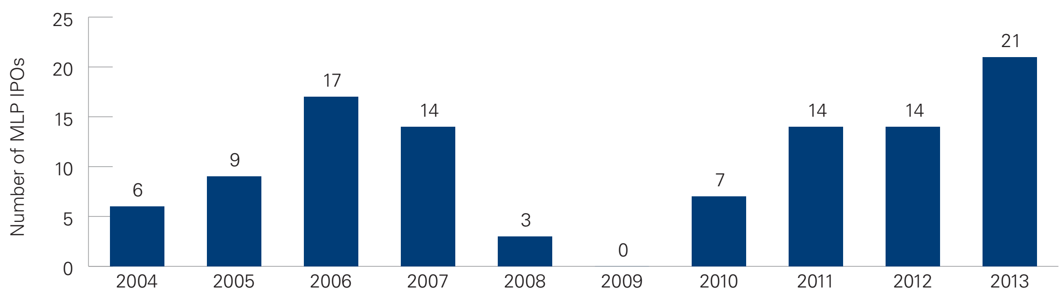
Exhibit 1: There are Now More MLPs Outside of the Alerian Index

	2008	2009	2010	2011	2012	2013
# of names in Index	50	50	50	50	50	50
# of names out of Index	23	20	22	30	43	62
% out of Index	**32%**	**29%**	**31%**	**37%**	**46%**	**55%**

Source: GSAM, Alerian. Data as of 3/31/2014.

As a continuation of this evolution, we believe the out of index MLP universe should grow even larger due to robust Initial Public Offering (IPO) volumes that we believe will likely continue due to strong fundamentals and demand for energy infrastructure assets.

Exhibit 2: 2013 Represented a Record Number of MLP IPOs over Past 10 Years



Source: GSAM, Public Company Filings; Data as of 3/31/2014. We believe during this time period the MLP sector has experienced the most growth.

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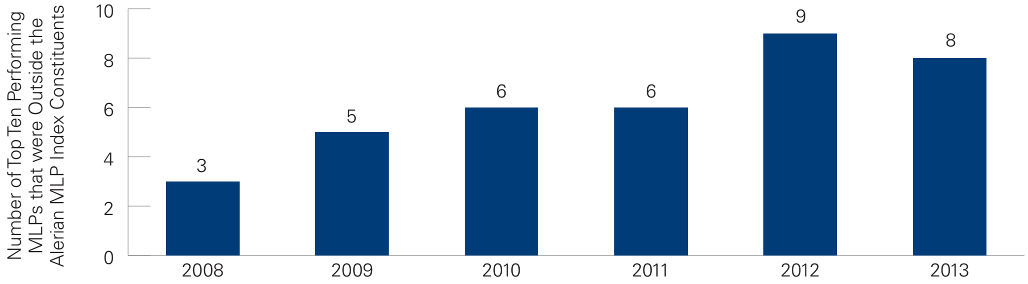
Finally, the number of top 10 performing MLPs, as measured by total return, that reside outside of the Alerian Index have generally increased since 2008 as noted in *Exhibit 3*. In 2008, only 3 of the top 10 performing MLPs were outside the Alerian Index versus 8 in 2013.[1]

Exhibit 3: The Majority of the Top 10 Performing MLPs Reside Outside the Index



Source: Bloomberg, GSAM, Alerian; Data as of 3/31/2014. Data only includes MLPs that were a constituent of the Alerian MLP Index at the beginning and end of the year. Universe includes all Energy Master Limited Partnerships (MLPs). Performance of the top 10 MLPs is measured by total return.

The importance of size and vintage

We believe the key reason for the outperformance of the out of index universe relates to *size* and *vintage*—two key variables that impact distribution growth potential for MLPs.

Along these lines, it's important to note that the Alerian Index is generally comprised of larger and older companies while the out of index universe is comprised of smaller and newer companies.

Exhibit 4: Alerian Index versus Out of Index

	Alerian	Out of Index MLP Universe*
Average Market Cap ($mm)	$7,425	$1,420
Average Vintage (years since IPO)	10.5	3.3

*Includes names that are structured as MLPs only including MLPs that elect to be taxed as C-corporations. Does not include general partners structured as MLPs.
Source: GSAM, Alerian. Data as of 12/31/2013.

Generally, we believe smaller and newer companies have the potential for a higher distribution growth rate than their older and larger counterparts. The former is more intuitive as it relates to the simple law of numbers—the smaller cap the company, the less cash flow growth required on an absolute basis to have an impact on distribution growth. The latter is likely less intuitive and the explanation rests in how the relationship works between the MLP (LP) and the general partner (GP).

Most MLPs have a general partner that helps manage and grow the business for a percentage of its cash flow. In exchange, many LPs pay out a percentage of their underlying cash flow, which is called the incentive distribution right (IDR). From IPO, the first IDR paid to the general partner is typically only 2% of an MLP's cash flow. As the MLP grows, the percentage of incremental cash flows it pays the general partner could also potentially grow from 2% up to 50% over time.[2] This dynamic explains why smaller cap, newer MLPs have a cost of capital and distribution growth advantage over the larger cap, older MLPs that tend to dominate the index.

[1] Source: Bloomberg, GSAM, Alerian; Data as of 3/31/2014.

[2] National Association of Publicly Traded Partnerships (NAPTP). http://www.naptp.org/documentlinks/Investor_Relations/MLP_101.pdf

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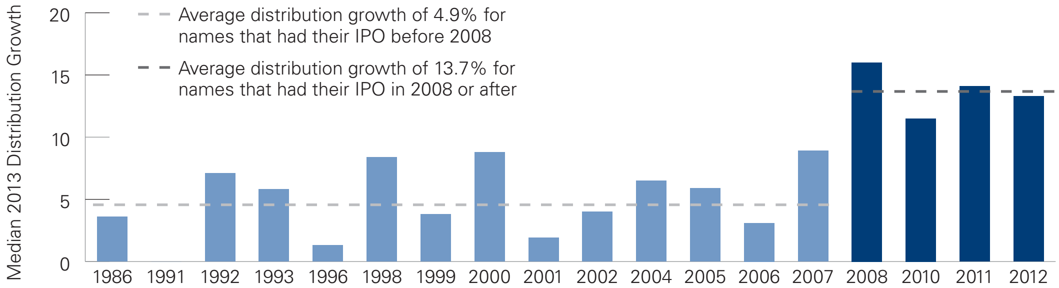
The below chart illustrates why vintage is important. MLPs that went public in 2008 through 2012 averaged annual distribution growth of 13.7% in 2013 compared to 4.9% for those who went public in 1986 through 2007.

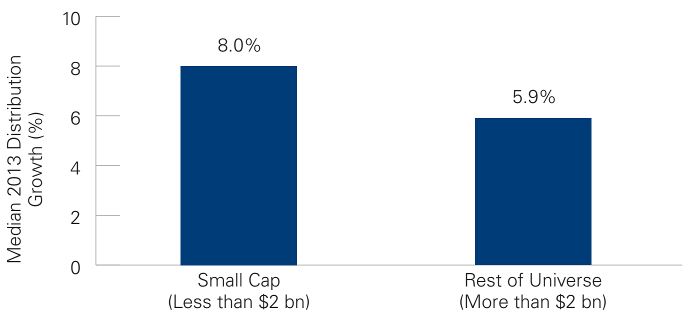
Exhibit 5: Newer MLPs Have Enjoyed a Distribution Growth Advantage Over Older MLPs
2013 Midstream MLP Distribution Growth by Year of IPO



Source: GSAM, Bloomberg; Data as of 3/31/2014; Reflects growth in quarterly distribution from Q4 2012 to Q4 2013; For IPOs in Q3 and Q4 2012, analysis reflects minimum quarterly distribution as disclosed in public company filings. Analysis includes universe of midstream Energy MLPs that are currently publically traded (as of 3/31/2014) and were publically traded for the full year 2013. Excludes names with variable distribution policies and GPs structured as MLPs. **MLP distributions consist largely of return of capital and not of current income. The ultimate composition of these distributions may vary due to a variety of factors including projected income and expenses, depreciation and depletion, and any tax elections made by the MLP. The final characterization of such distribution will be made when an MLP can determine each investor's share of the MLP's income, expenses, gains and losses. The final tax status of the distribution may differ substantially from this information.**

Additionally, we believe it is important to consider size when investing in MLPs. MLPs with an average market cap of less than $2B saw average distribution growth of 8% in 2013, while MLPs with an average market cap greater than $2B saw average distribution growth of only 5.9%.

Exhibit 6: Larger is Not Always Better
Median 2013 Distribution Growth by Market Cap



Source: GSAM, Bloomberg; Market Capitalization as of 12/31/2013; Reflects growth in quarterly distribution from Q4 2012 to Q4 2013; For IPOs in Q3 and Q4 2012, analysis reflects minimum quarterly distribution as disclosed in public company filings. Analysis includes universe of midstream Energy MLPs that are currently publicly traded (as of 3/18/2014) and were publicly traded for the full year 2013. Excludes names with variable distribution policies and General Partners structured as MLPs. **MLP distributions consist largely of return of capital and not of current income. The ultimate composition of these distributions may vary due to a variety of factors including projected income and expenses, depreciation and depletion, and any tax elections made by the MLP. The final characterization of such distribution will be made when an MLP can determine each investor's share of the MLP's income, expenses, gains and losses. The final tax status of the distribution may differ substantially from this information.**

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While an out of benchmark approach may translate to higher liquidity risk due to the smaller cap nature of the universe, we believe this orientation may reward investors with companies that have better cost of capital and stronger growth versus the traditional index names. We believe these company attributes may help provide greater portfolio interest rate resiliency. Additionally, since these company names are not in the index, we believe they may not see as much technical selling to the extent investor sentiment turns sharply negative. Lastly, it's worth noting that passive alternatives, which are defined as Exchange Traded Funds (ETFs) and Exchange Traded Notes (ETNs) are not cheap and typically cost investors 85 basis points in fees or more.[3] For all of these reasons combined, we believe this approach, combined with strong stock selection, may lead to better potential returns and potentially lower risk vs. the Alerian Index and especially versus passive alternatives.

How rigorous fundamental analysis can add value

While we believe an index agnostic approach with an emphasis on smaller cap and newer companies may lead to outperformance, we believe it's also important to perform rigorous, fundamental analysis. The energy landscape is much different today than it was before the rebound in domestic energy production. Until 2009, production growth was limited to a single commodity (natural gas) in just a few locations, but today the landscape is vastly different. We are now seeing a massive increase in production growth and it now spans all commodity types—natural gas, oil and natural gas liquids—and in many more geographies. Additionally, many of the beneficiaries of production growth include petrochemical and agriculture companies, the general manufacturing sector, plus an emerging ability to export. In summary, the space has evolved, it has become more complex and it has created a larger dispersion between the "haves" and "have nots." While we remain constructive on the asset class, we believe rigorous fundamental analysis is paramount in choosing the appropriate companies and avoiding those that may underperform.

Conclusion

Innovations in technology have revolutionized the energy industry creating an abundance of economic opportunities across the US. At the very epicenter of the US Energy Revolution are MLPs, the companies responsible for much of the pipeline, processing, fractionation and storage of oil and gas. We remain positive on the asset class and believe if the current energy production trend continues, MLPs may remain a rewarding long-term investment opportunity.

However, our research has proven that not all MLPs are created equal and we believe a rigorous and active approach is necessary to sift through the expanding universe. Since 2008, the Alerian Index has been represented by the 50 largest MLP companies, but over the last 6 years the total MLP universe has expanded to 112 companies. Unfortunately for index investors, they may be overlooking significant investment opportunities outside the traditional Alerian Index. As discussed, we believe MLPs not included in the Alerian Index can potentially offer greater distribution growth due to their smaller size and vintage.

At Goldman Sachs Asset Management, our dedicated Energy & Infrastructure Team has a long standing presence within the MLP sector and is one of the largest managers based on assets under management. We believe our focus on "out of index" MLPs can not only provide access to the potential benefits of the US Energy Revolution, but can provide an innovative perspective on investing in the sector.

[3] Morningstar, 3/31/2014. A basis point is equal to 1/100th of 1%.

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Fund Risk Considerations

The **Goldman Sachs MLP Energy Infrastructure Fund** invests primarily in a portfolio of master limited partnership ("MLP") investments in the energy sector. The Fund's equity investments are subject to **market risk**, which means that the value of the securities in which it invests may go up or down in response to the prospects of individual companies, particular sectors and/or general economic conditions. **Investments in MLPs** are subject to certain risks, including risks related to limited control and limited rights to vote, potential conflicts of interest, cash flow risks, dilution risks, **limited liquidity** and risks related to the general partner's right to force sales at undesirable times or prices. MLPs are also subject to risks relating to their **complex tax structure**, including the risk that an MLP could lose its tax status as a partnership, resulting in a reduction in the value of the Fund's investment in the MLP and lower income to the Fund. The Fund's strategy of investing primarily in MLPs, resulting in its being **taxed as a regular corporation**, or "C" corporation, involves complicated and in some cases unsettled accounting, tax and valuation issues. Many MLPs in which the Fund invests operate facilities within the **energy sector** and are also subject to risks affecting that sector. Because the Fund concentrates its investments in the energy sector, the Fund is subject to greater risk of loss as a result of adverse economic, business or other developments affecting industries within that sector than if its investments were more diversified across different industries. The **securities of mid- and small-capitalization companies** involve greater risks than those associated with larger, more established companies and may be subject to more abrupt or erratic price movements. The Fund is **non-diversified** and may invest a larger percentage of its assets in fewer issuers than diversified funds. Accordingly, the Fund may be more susceptible to adverse developments affecting any single issuer held in its portfolio and to greater losses resulting from these developments. The Fund may also invest up to 20% of its Net Assets in non- MLP investments, including, without limitation, securities of corporations that operate in the energy sector or that hold energy assets.

Master Limited Partnerships (MLPs). Certain MLP securities may trade in lower volumes due to their smaller capitalizations. Accordingly, those MLPs may be subject to more abrupt or erratic price movements, may lack sufficient market liquidity to enable investments in MLPs to be sold at an advantageous time or without a substantial drop in price. Master limited partnerships are generally considered interest-rate sensitive investments. During periods of interest rate volatility, these investments may not provide attractive returns. MLPs are also subject to risks relating to their complex tax structure, including the risk that a distribution received from an MLP is treated as a return of capital, which may increase the Fund's tax liability and require the Fund to restate the character of its distributions and amend shareholder tax reporting previously issued, and the risk that an MLP could lose its tax status as a partnership, resulting in a reduction in the value of the Fund's investment in the MLP and lower income to the Fund. Investments in master limited partnerships ("MLPs") are subject to certain risks, including risks related to limited control and limited rights to vote, potential conflicts of interest, cash flow risks, dilution risks, limited liquidity and risks related to the general partner's right to force sales at undesirable times or prices.

Additional Disclosures

Master Limited Partnerships ("MLPs") may be generally less liquid than other publicly traded securities and as such can be more volatile and involve higher risk. Investments in securities of an MLP involve risks that differ from investments in common stocks, including risks related limited control and limited rights to vote on matters affecting the MLP, risks related to potential conflicts of interest between the MLP and the MLP's general partner, cash flow risks, dilution risks and risks related to the general partner's right to require unitholders to sell their common units at an undesirable time or price. MLPs are also generally considered interest-rate sensitive investments. During periods of interest rate volatility, these investments may not provide attractive returns.

MLPs may also involve substantially different tax treatment than other equity-type investments, and such tax treatment could be disadvantageous to certain types of investors, such as retirement plans, mutual funds, charitable accounts, foreign investors, retirement accounts or charitable entities. In addition, investments in MLPs may trigger state tax reporting requirements. Generally, a master limited partnership ("MLP") is treated as a partnership for Federal income tax purposes. Therefore, investors in an MLP may be subject to certain taxes in addition to Federal income taxes, including state and local income taxes imposed by the various jurisdictions in which the MLP conducts business or owns property. In addition, certain tax-exempt investors in an MLP, such as tax-exempt foundations and charitable lead trusts, may incur unrelated business taxable income ("UBTI") with respect to their investment. UBTI may result in increased Federal, and possibly state and local, tax costs, and may also result in additional filing requirements for tax exempt investors. Non-U.S. investors may be subject to U.S. taxation on a net income basis and have U.S. filing obligations as a result of investing in MLPs. The tax reporting information for MLPs generally is provided to investors on an annual IRS Schedule K-1, rather than an IRS Form 1099. To the extent the Schedule K-1 is delivered after April 15, you may be required to request an extension to file your tax returns.

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The Fund will be treated as a regular corporation or "C" corporation for US federal tax purposes which means that investors have simplified tax reporting compared to direct investments in multiple MLPs.

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