
Global Fixed Income Outlook

A Truce in the Currency War

Executive Summary

Negative interest rates in Europe and Japan and a strong US dollar have provided questionable economic benefits and investors appear increasingly focused on the potential negatives. As a result, we expect a truce in the “currency war” and a transition in the global policy regime toward more emphasis on domestic demand (see p.3). We think this environment—where policy remains highly accommodative but perhaps less disruptive—is positive for selective exposure to corporate bonds, emerging market debt and other higher yielding sectors of the fixed income market.

Over the next 12 months, our central case is essentially a continuation of recent trends: 1) modest global economic growth with 2) extreme monetary policy measures helping to support gradual improvement in Europe and Japan, against 3) a backdrop of rising US inflation, rising debt in China and unpredictable politics. Over the longer term, we think fundamental risks are growing and the volatility in the first quarter adds to our sense that market sentiment is fragile. As a result, we are biased to smaller, more nimble positioning with an emphasis on higher credit quality.

- **We think global growth remains stuck in low gear.** After a modestly stronger year for the US, Europe and Japan in 2015, we expect some softening in 2016 (see our regional forecasts, p.2).
- **US domestic inflation risks are growing.** The Federal Reserve (Fed) continues to downplay US inflation risks and has lowered its projections for rate hikes. However, with the US labor market nearing the Fed’s estimate of full employment and measures of core inflation rising steadily, we think the market is underestimating the path of Fed hikes (see p.4).
- **China’s commitment to growth targets may raise longer-term risks.** China appears to be prioritizing its growth target rather than reforms. In the near-term, we think this is supportive for financial markets but liquidity-fueled debt growth seems unsustainable and could create bigger risks over the longer term (see p.5).
- **The oil market could move into better balance later this year.** The oil market remains a key driver of financial markets and we remain cautious about the outlook. However, we think US supply and demand are turning more supportive for oil prices and shale producers probably have less ability to respond quickly to higher prices than markets may be assuming (see p.6).
- **We expect more demand for yield and less fear of default.** In the environment we foresee over the next few months, we think investors are likely to worry less about rising corporate default risk and focus more on the higher yield potential in corporate credit and emerging market debt. We also see valuations in these sectors as attractive relative to the fundamental risk. However, we are increasingly cautious about the longer-term outlook and more likely to favor smaller, more diversified risk exposures and more nimble positioning (see p.7).

Growth Outlook

We think global growth remains stuck in low gear and we see little prospect for meaningful acceleration over the next 12 months. In the near term, we are a bit more optimistic as growth appears to be rebounding from a disappointing first quarter. Another major dose of policy—including new easing measures from the European Central Bank (ECB) and Bank of Japan (BoJ), fiscal stimulus in China and lower Fed rate hike projections—seems likely to provide additional support. However, we have revised our longer-term forecasts down slightly across all of the major economies.

- **We believe US economic growth is stuck at around 2%.** Growth could pick up over the next few quarters as the recent decline in the US dollar should take some of the pressure off the manufacturing sector. Consumers also continue to benefit from a strong labor market and low energy prices, which makes it difficult to get too negative on the outlook for a consumption-driven economy. However, corporate credit is in the latter stages of the cycle, business lending standards are tightening and the benefits from the job market and oil prices are probably peaking. That leads us to believe upside for growth is limited and GDP will likely moderate to around 2.2% in 2016 and 2% in 2017. The upcoming presidential election bears watching but ultimately we think the probability of transformational change as a result of the election is low.
- **China's growth has continued to disappoint and policymakers have responded with easier monetary conditions and more aggressive fiscal stimulus targeted at infrastructure.** We think employment and wage growth levels, especially in the service sector, are sufficient to maintain domestic consumption, but exports are soft and continue to suffer from weak external demand, particularly in Asia. Policy action suggests China continues to prioritize 6.5% growth but we think this will be difficult to achieve. Excess capacity is creating weakness in manufacturing that could spill over into services. Stimulus has helped the property market stabilize, but new construction starts are weak and we think policy is becoming less efficient at creating growth given a rising debt overhang and the anti-corruption drive. Our forecast is for 6.2% in 2016 and 5.8% in 2017.
- **We expect Eurozone growth of about 1.3% in 2016, which is below consensus but above our estimate of trend growth.** We think trend growth in the Eurozone is only about 0.5%, which means that current growth levels, while modest, should still lead to a gradual reduction in slack and unemployment. Still, Eurozone unemployment is above 10%, so we see little prospect for a pick-up in inflation or wage growth. As a result, we expect consumption, which helped drive stronger overall growth in 2015, to moderate a bit in 2016. ECB easing should help limit the downside, but we expect additional easing will be required this year.
- **Japanese growth has also disappointed as consumption remains soft despite a strong labor market.** We think consumption could improve somewhat, but with another consumption tax hike (from 8% to 10%) set to occur in April 2017, fiscal policy will be critical to the outlook. Considering the large and prolonged drag on growth from the 2014 consumption tax hike, speculation that the 2017 hike will be postponed has increased. In a March 29 press conference, Prime Minister Shinzo Abe indicated that the tax hike will proceed and potential fiscal stimulus will have to come from other measures. In the absence of higher wage growth, we think growth will remain sluggish at around 0.6% in 2016.
- **In the UK, soft external demand has weighed on growth despite weakness in the pound.** In the near-term, we think uncertainty about the UK's upcoming referendum on remaining in the European Union (EU) could restrain consumer spending and business investment. Over the longer-term, we think the outcome of the referendum could have significant implications for UK growth, but we think the immediate impact is likely to be limited. If the UK remains in the EU, the pound would likely reverse some of its recent declines. In the event of an exit, the transition would take time as the UK and EU would have two years to negotiate a withdrawal agreement. For now, we expect 1.8% growth in 2016 and 2.2% in 2017.

A Truce in the Currency War

The global economy received another large dose of policy stimulus in the first quarter, which was notable on its own, but we think the most important development was in the details. Specifically, we see the ECB's policy decision in March as shifting the policy emphasis away from negative rates and currency depreciation and toward stimulating domestic demand through the credit channel.

Currency depreciation has been a key focus of monetary policy in Japan and the Eurozone as the BoJ and ECB looked to stimulate growth via the export channel in the absence of domestic demand.

The focus on currency has required extreme measures from the ECB and BoJ to counter soft demand in Asian export markets, diminishing returns from policy changes and current account surpluses that naturally put upward pressure on the euro and yen. As a result, markets have become more focused on the limits of monetary policy and more concerned about the potential negatives of increasingly extreme measures.

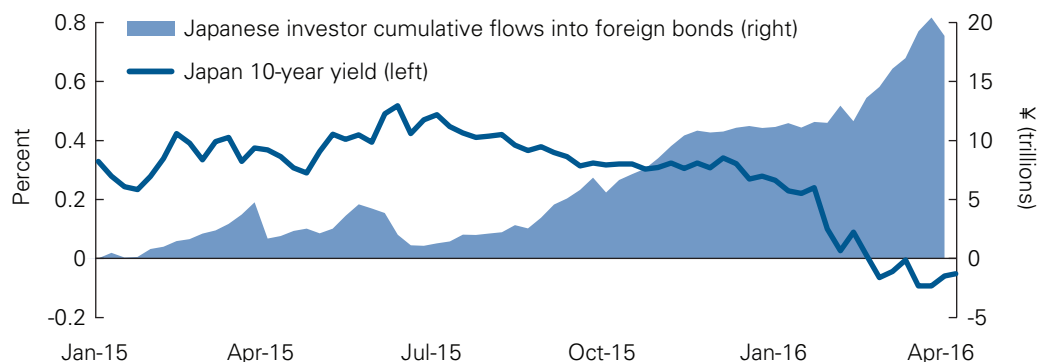
The so-called "currency war" has produced two unintended consequences. First, increasingly negative rates have put significant pressure on the financial sector, which became clear in the first quarter as Japan's adoption of negative rates was immediately followed by large sell-offs in financial sector credit and equities. Second, low rates in Europe and Japan have driven investors into the US, causing sharp gains in the US dollar. Dollar strength has slowed the US economy, the world's main source of demand, and contributed to the volatility in China's currency. Profit pressure in the financial sector, slower US growth and volatility in China's currency have not been a recipe for economic recovery or market stability.

In our view, the ECB's March policy decision indicated a clear change in direction. The ECB announced larger-than-expected measures to support domestic credit growth, including purchases of corporate bonds, and ECB President Mario Draghi in his press conference explicitly noted the shift in emphasis away from negative rates as a policy tool. Does this mean the end of the currency war? Probably not. Draghi's comments left room for further rate cuts if needed. But we do think the ECB's move signals a truce.

Japan's corporate bond market is relatively small and government bond purchases are already at extreme levels, which could limit the BoJ's options. As a result, we think further rate cuts are possible. Low rates are already driving Japanese investors into foreign bonds and we believe this is likely to continue. Japan's policy focus also appears to be shifting, with growing emphasis on fiscal stimulus. Prime Minister Abe has proposed short-term fiscal stimulus rather than postpone the consumption tax hike now set for April 2017, but maintaining this stance may be difficult.

In the US, the Fed has also adjusted its approach, reducing the number of projected rate hikes this year from four to two while emphasizing risks from soft global growth and the strong dollar. The Fed's dovish turn adds to the stimulus from Japan and Europe and could take some of the pressure off the dollar. However, with US inflation trending higher, we think the market is underestimating the path of US rate hikes, as we discuss in the following section.

Falling rates have pushed Japanese investors into US and other foreign bonds



Source: Bloomberg. As of April 7, 2016.

Markets have become more focused on the limits of monetary policy and more concerned about the potential negatives of increasingly extreme measures.

Profit pressure in the financial sector, slower US growth and volatility in China's currency have not been a recipe for economic recovery or market stability.

Does this mean the end of the currency war? Probably not. But we do think the ECB's move signals a truce.

The Fed's dovish turn adds to the stimulus from Japan and Europe and could take some pressure off the dollar.

The Fed's Dovish Turn Versus Rising Inflation Risk in the US

US core inflation has risen steadily over the last six months or so, but the Fed has downplayed this risk while turning more dovish on the outlook for future rate hikes. In a speech on March 29, Fed Chair Janet Yellen noted that it was “too early to tell if this recent faster pace [of core inflation] will prove durable.”

We see this as a notable shift in the Fed's thought process around how policy should react to changes in inflation. As recently as December, the Fed had expressed more confidence that inflation was being suppressed by “transitory factors”. We read this shift as an indication that the Fed has raised the bar in terms of the level of actual inflation that merits further rate hikes and perhaps lowered the bar in terms of the easing in financial conditions that might be necessary to allow for rate hikes.

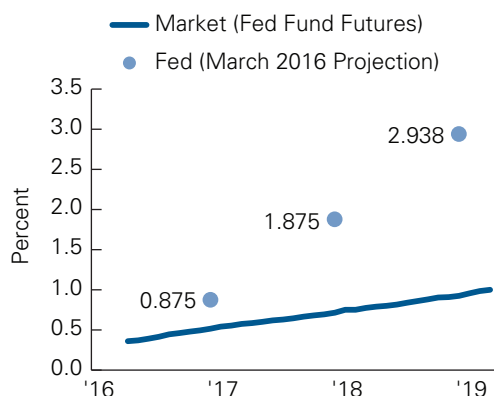
We see a notable shift in the Fed's thought process around how policy should react to changes in inflation.

We think downside risk to core inflation is limited and we see upside risk in goods and services prices.

Fed officials have expressed concerns that recent inflation gains may be temporary, or that dollar gains and low inflation expectations may exert downward pressure. However, we note that the rise in core inflation has been broad-based and the job market is close to full employment, suggesting little slack in the economy. Rising labor participation may constrain wage growth and one-offs have contributed to some of the rise in core inflation. Still, we think downside risk to core inflation is limited and we see upside risk in goods and services prices.

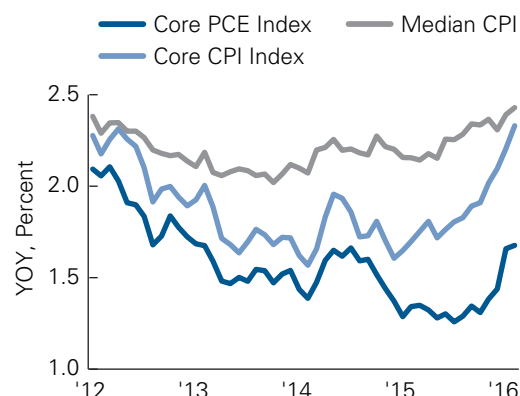
Interest rate markets may need to adjust to upside risk in US inflation

The Fed vs the Market



Source: Bloomberg. As of April 13, 2016

US Core Inflation



Source: Bloomberg. As of February 2016

From a market perspective, we think the path of inflation and financial conditions over the next few months will be key. The Fed may be willing to accept higher inflation to some extent—after all, this is a problem the Fed has a lot of experience at managing; persistently low inflation is not. However, the market tends to be less patient and if inflation continues to rise investors may see the Fed as falling a bit behind the curve.

The market is pricing a very shallow path of rate hikes over the longer term, even relative to the Fed's recently lowered projections, and may need to adjust if inflation holds steady or surprises to the upside.

Fed projections as of the March 2016 meeting indicate the potential for two hikes this year, down from four as of the December 2015 meeting. We think two hikes this year is a reasonable estimate. However, the market is pricing a very shallow path of rate hikes over the longer term, even relative to the Fed's recently lowered projections, and may need to adjust if inflation holds steady or surprises to the upside.

We think rate market adjustments are more likely to occur at the longer end of the curve. It seems clear that the Fed is targeting broader financial conditions rather than simply focusing on the short-term policy rate. If financial conditions tighten due to broader market volatility, the Fed may decide even two hikes this year would be too many. As a result, we see a risk of higher long-term rates if the market gets nervous about inflation, even if short-term rates remain anchored by cautious Fed policy.

China: Prioritizing Growth over Reforms

We think authorities will strive for growth in two ways: 1) monetary and fiscal stimulus to address China's tight financial conditions; and 2) by de-emphasizing reform initiatives that would have contributed to the slowdown. Both approaches add to risks.

However, the PBoC is challenged by the impossible trinity: trying to control the level of interest rates and the value of the currency while also liberalizing the capital account.

China's excessive leverage poses perhaps the biggest risk of a shock, in our view, as it coincides with slowing growth and rising debt servicing costs.

A tipping point may not come for a few years given China's high savings rate, but the longer these issues go unresolved the larger the imbalances are likely to become and the greater the unease in global markets.

In the current environment, the prospect of China hitting its 6.5% growth target at the expense of reforms may be the most positive development in our outlook. However, we think China's growth target is unsustainable, further complicating the juggling act for policymakers and raising longer-term risks both to China's outlook and to global markets.

We believe China's commitment to its growth target is firm—anchored by its pledge to double per capita income in the decade to 2020, and the underlying imperative to preserve social and political stability. We think authorities will strive for growth in two ways: 1) monetary and fiscal stimulus to address China's tight financial conditions; and 2) by de-emphasizing reform initiatives that would have contributed to the slowdown. Both approaches add to risks, in our view.

From a growth perspective, we think the contraction in the industrial sector and excess capacity in manufacturing are significant and persistent drags on overall growth rates. The services sector is on a trend of gradual expansion, in line with the government's objective to rebalance the economy toward consumption, but still lacks the momentum to compensate.

In terms of stimulus, after years of overinvestment in infrastructure we think monetary action is more likely than substantial fiscal stimulus. However, the People's Bank of China (PBoC) is challenged by the impossible trinity: trying to control the level of interest rates and the value of the currency while also liberalizing the capital account. Aggressive rate cuts by the central bank could lead to stronger capital outflows and a sharper slump in the yuan. So far, China has sought to address this by using roughly \$800bn of its international reserves to defend the currency amid capital outflows. Though reserves are still high at \$3.2trn, we think this pace of decline is unsustainable and raises the risk of tighter controls on the capital account.

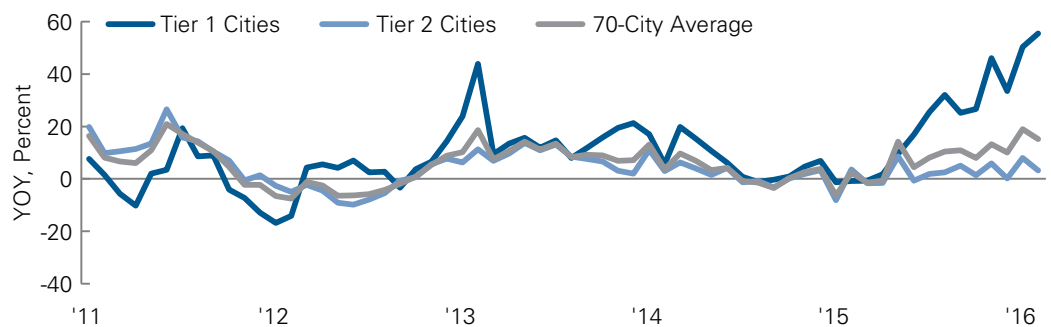
Another notable counterproductive effect of further monetary easing is the potential boost to credit growth. Despite having slowed, credit is still expanding at double the pace of economic growth. Though government debt is relatively low, loans to local government and the private sector have driven China's total debt to GDP to around 250%. And authorities are yet to directly tackle the burden of non-performing loans, which are estimated in the trillions. Overall, China's excessive leverage poses perhaps the biggest risk of a shock, in our view, as it coincides with slowing growth and rising debt servicing costs.

The impact of this liquidity is currently most evident in the property market, which has benefitted from flows diverted by the equity market slump, and encouraged by stimulus in the form of rate cuts and lower down payments. However, sales have slowed and we are concerned about uneven growth across sectors. House prices have surged to bubble-like proportions in the largest (Tier 1) cities, while significant inventory overhang persists in smaller cities.

A tipping point may not come for a few years given China's high savings rate, but the longer these issues go unresolved the larger the imbalances are likely to become and the greater the unease in global markets. The potential spillover is already evident in the way markets have reacted to China-specific events, including stocks of companies with little or no direct Chinese exposure.

China liquidity is flowing into the Tier 1 property market

China Property Prices



Source: Bloomberg. As of February 2016.

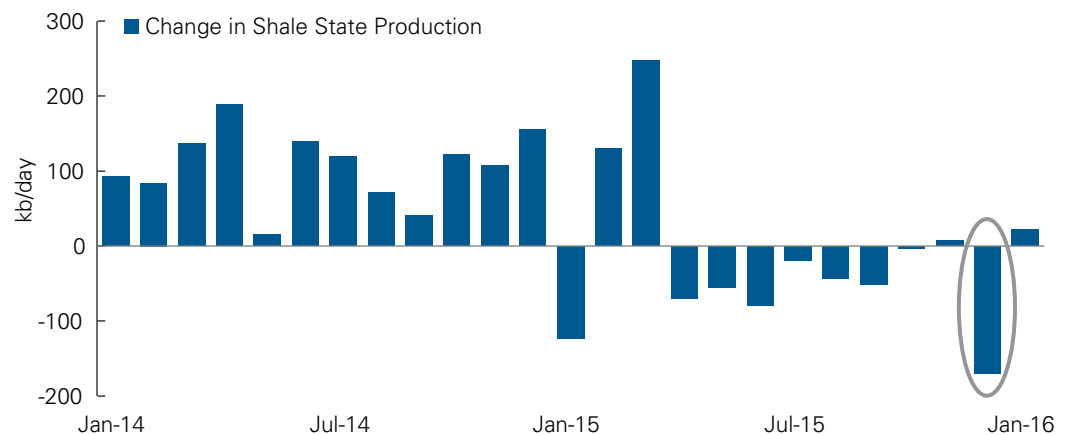
Oil Markets Seeking Balance

The oil market remains a key driver of financial markets and we remain cautious about the outlook. Earlier this year, we were negative on oil prices given persistent oversupply and the possibility of inventories reaching full storage. However, following the plunge in oil prices to new cycle lows earlier this year, we have become less bearish on the outlook for oil in 2016.

Following the plunge in oil prices to new cycle lows earlier this year, we have become less bearish on the outlook for oil in 2016.

The latter portion of the first quarter brought a few supportive developments. From a supply perspective, the gradual decline in US oil production showed signs that it might finally begin to accelerate. December data (reported in February) indicated the largest monthly decline in key shale state production so far this cycle. Surprisingly, this was followed by a slight increase in shale state production in the January data, but we expect that the pace of production declines will accelerate from the modest pace in 2015.

US shale production declines finally showed signs of accelerating in December



Source: Bloomberg, GSAM. As of January 2016.

Each day that passes without crude oil reaching full storage makes it less likely to occur, as summer demand levels should take the pressure off storage capacity.

On the demand side, China became less of an immediate concern as the government appears to be prioritizing growth over reform. Additionally, the summer driving season is approaching in the northern hemisphere. Each day that passes without crude oil reaching full storage makes it less likely to occur, as summer demand levels should take the pressure off storage capacity.

The oil futures market has priced in a lower-for-longer environment in which prices remain around \$50 for the next five years. We think this is based on the expectation that US shale producers will be able to quickly resume production at higher prices, which could limit the upside in oil for the foreseeable future. In our view, the market is pricing in very little risk that turning on the shale spigots may take longer than expected if workers have moved on to other industries given the collapse in rig counts.

In our view, the market is pricing in very little risk that turning on the shale spigots may take longer than expected if workers have moved on to other industries given the collapse in rig counts.

Looking ahead, we think the oil market could begin to come into better balance later this year, and we think investors will aim to anticipate that event. As a result, the tone in the markets could begin to improve by mid-year. If shale production does not respond to higher prices as quickly as expected, we could see a scenario where oil markets price in a higher risk premium than the forward market currently reflects. From a fixed income perspective, we think spreads in the US high yield market are consistent with the lower-for-longer outlook priced into the forwards. However, the forwards have been wrong before, and could be again. We are not ready to turn positive on oil prices yet, but we do believe higher-quality high yield energy sector bonds can offer value.

Investment Themes

From an investment perspective, we think the macro backdrop suggests three main themes.

We think the outlook for growth and central bank liquidity continues to favor allocations to riskier sectors of the global fixed income market.

We are cautious on EM economies most exposed to China's declining demand for industrial commodities, particularly regional economies with less flexibility to ease policy due to strong credit growth.

We think short positions in Asian currencies versus Russia offer an attractive combination of diversification, China hedging and exposure to potential improvements in the oil market.

Third, we think major developed government bonds are unattractive, particularly in Japan where yields are negative out to 10 years.

First, we think the outlook for growth and central bank liquidity continues to favor allocations to riskier sectors of the global fixed income market. We recognize that US corporate profits are declining and leverage is increasing, and that emerging markets are broadly at risk from developments in China. However, we think growth will be sufficient to keep investors focused on the search for yield rather than the fear of default risk, particularly in an environment where growth in the US and China seems likely to stabilize or improve after recent weakness.

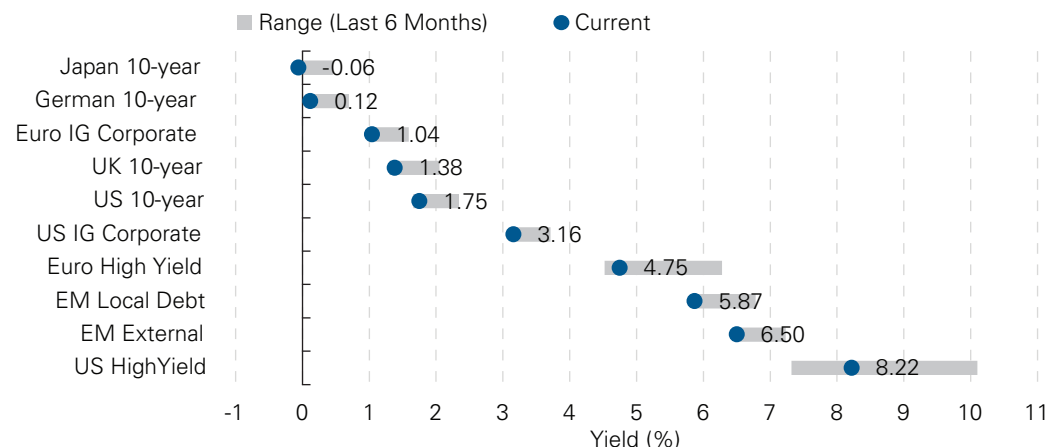
From a policy perspective, a truce in the currency war could also be positive for risk assets. In our view, rates in Europe and Japan are low enough to encourage demand for higher-yielding assets. If the ECB and BoJ can refrain from pushing rates further into negative territory, we think that also reduces the risk of further market backlash, such as the counterproductive market reaction to Japan's negative rates move. Corporate bond buying by the ECB, some improvement in China and potential fiscal stimulus in Japan add to our sense that the supply/demand and fundamental backdrop remain supportive for corporate credit and emerging market debt.

Second, we think longer-term risks argue for tactical risk-taking, higher-quality yield and hedges against China risk. Broadly speaking, we think extreme policy measures are supportive for growth in the near-term but also add leverage to the system and/or reduce the pressure for reforms that could support more sustainable growth over the long-term. We think this is particularly true in China, Europe and Japan. In the US, we think the corporate credit sector is in the late phase of the cycle, which has historically been associated with lower return potential and higher volatility compared to other phases of the cycle.

Taken together, we think these considerations support continued allocations to riskier assets, but we also see a strong case for smaller position sizes that allow us to be more tactical and nimble in adjusting risk. We also favor higher quality. In high yield, for example, we are focusing more of our security selection at the higher end of the credit rating spectrum, including "fallen angels" (investment-grade companies downgraded to high yield). In emerging markets, our goal is to hedge China risk as much as possible via the credit default swap market and other strategies. We think short positions in Asian currencies versus Russia offer an attractive combination of diversification, China hedging and exposure to potential improvements in the oil market.

Third, we think major developed government bonds are unattractive, particularly in Japan where yields are negative out to 10 years. In the US, we think rising inflation creates the risk that interest rates may need to adjust to a somewhat steeper path of Fed hikes than is currently priced. We see some value in US inflation-linked bonds ("TIPS"), but these bonds are trading with high correlation to corporate bonds, which limits their diversification benefits. In Europe, we see little value in higher-quality German Bunds.

Low rates in Japan and Europe are pressuring yields lower across the spectrum



As of April 4, 2016. Source: Bloomberg, Barclays, JP Morgan

Risk Considerations

Investments in fixed-income securities are subject to credit and interest rate risks. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline in the bond's price. Credit risk is the risk that an issuer will default on payments of interest and principal. This risk is higher when investing in high yield bonds, also known as junk bonds, which have lower ratings and are subject to greater volatility. All fixed income investments may be worth less than their original cost upon redemption or maturity.

Emerging markets securities may be less liquid and more volatile and are subject to a number of additional risks, including but not limited to currency fluctuations and political instability.

The currency market affords investors a substantial degree of leverage. This leverage presents the potential for substantial profits but also entails a high degree of risk including the risk that losses may be similarly substantial. Such transactions are considered suitable only for investors who are experienced in transactions of that kind. Currency fluctuations will also affect the value of an investment.

Investments in commodities may be affected by changes in overall market movements, commodity index volatility, changes in interest rates or factors affecting a particular industry or commodity.

One basis point is equal to 1/100th of a percent.

Disclosures

This information discusses general market activity, industry or sector trends, or other broad-based economic, market or political conditions and should not be construed as research or investment advice. This material has been prepared by GSAM and is not financial research nor a product of Goldman Sachs Global Investment Research (GIR). It was not prepared in compliance with applicable provisions of law designed to promote the independence of financial analysis and is not subject to a prohibition on trading following the distribution of financial research. The views and opinions expressed may differ from those of Goldman Sachs Global Investment Research or other departments or divisions of Goldman Sachs and its affiliates. Investors are urged to consult with their financial advisors before buying or selling any securities. This information may not be current and GSAM has no obligation to provide any updates or changes.

THIS MATERIAL DOES NOT CONSTITUTE AN OFFER OR SOLICITATION IN ANY JURISDICTION WHERE OR TO ANY PERSON TO WHOM IT WOULD BE UNAUTHORIZED OR UNLAWFUL TO DO SO.

Prospective investors should inform themselves as to any applicable legal requirements and taxation and exchange control regulations in the countries of their citizenship, residence or domicile which might be relevant.

This material is provided for informational purposes only and should not be construed as investment advice or an offer or solicitation to buy or sell securities. This material is not intended to be used as a general guide to investing, or as a source of any specific investment recommendations, and makes no implied or express recommendations concerning the manner in which any client's account should or would be handled, as appropriate investment strategies depend upon the client's investment objectives.

Although certain information has been obtained from sources believed to be reliable, we do not guarantee its accuracy, completeness or fairness. We have relied upon and assumed without independent verification, the accuracy and completeness of all information available from public sources.

Economic and market forecasts presented herein reflect a series of assumptions and judgments as of the date of this presentation and are subject to change without notice. These forecasts do not take into account the specific investment objectives, restrictions, tax and financial situation or other needs of any specific client. Actual data will vary and may not be reflected here. These forecasts are subject to high levels of uncertainty that may affect actual performance. Accordingly, these forecasts should be viewed as merely representative of a broad range of possible outcomes. These forecasts are estimated, based on assumptions, and are subject to significant revision and may change materially as economic and market conditions change. Goldman Sachs has no obligation to provide updates or changes to these forecasts. Case studies and examples are for illustrative purposes only.

Past performance does not guarantee future results, which may vary. The value of investments and the income derived from investments will fluctuate and can go down as well as up. A loss of principal may occur.

List of permitted countries for distribution: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Gibraltar, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden

United Kingdom and European Economic Area (EEA): In the United Kingdom, this material is a financial promotion and has been approved by Goldman Sachs Asset Management International, which is authorized and regulated in the United Kingdom by the Financial Conduct Authority.

Asia Pacific: Please note that neither Goldman Sachs (Asia) LLC (GSALLC), nor any other entities involved in the Goldman Sachs Asset Management (GSAM) business maintain any licenses, authorisations or registrations in the People's Republic of China ("PRC"), Thailand, Philippines, Indonesia, or Brunei nor are any of the GSAM funds registered in the PRC, Thailand, Indonesia, Brunei or the Securities and Exchange Commission of the Philippines under the Securities Regulation Code. The offer and sale of securities within Thailand and the provision of investment management services in Thailand or to Thai entities may not be possible or may be subject to legal restrictions or conditions. To the extent that GSALLC is providing a financial service in Australia, GSALLC is exempt from the requirement to hold an Australian financial services license for the financial services it provides in Australia to "wholesale clients" for the purposes of the Corporations Act 2001 (Cth). GSALLC is regulated by the Securities and Futures Commission of Hong Kong under Hong Kong laws, which differ from Australian laws.

Not all services or products can be made available in Taiwan. Any particular offer of securities may not have been and may not be registered with the Securities and Futures Bureau, Financial Supervisory Commission of Taiwan pursuant to relevant securities laws and regulations and may therefore not be capable of being sold or publicly offered in Taiwan. The Goldman Sachs companies involved in any such promotion may not maintain any licenses, authorisations or registrations in Taiwan. These materials are provided solely for your information and consideration, and are not intended as a solicitation in respect of the purchase or sale of instruments or securities, or the provision of services. This material has been issued or approved for use in or from Hong Kong by Goldman Sachs (Asia) L.L.C. and in or from Singapore by Goldman Sachs (Singapore) Pte. (Company Number: 198602165W) and Goldman Sachs Asset Management (Singapore) Pte. Ltd. (Company Number: 201329851H). This material is distributed by Goldman Sachs Asset Management Australia Pty Ltd ABN 41 006 099 681, AFSL 228948 ('GSAMA') and is intended for viewing only by wholesale clients for the purposes of section 761G of the Corporations Act 2001 (Cth).

Japan: This material has been issued or approved in Japan for the use of professional investors defined in Article 2 paragraph (31) of the Financial Instruments and Exchange Law by Goldman Sachs Asset Management Co., Ltd.

Canada: This material has been communicated in Canada by Goldman Sachs Asset Management, L.P. (GSAM LP). GSAM LP is registered as a portfolio manager under securities legislation in certain provinces of Canada, as a non-resident commodity trading manager under the commodity futures legislation of Ontario and as a portfolio manager under the derivatives legislation of Quebec.

In other provinces, GSAM LP conducts its activities under exemptions from the adviser registration requirements. In certain provinces, GSAM LP is not registered to provide investment advisory or portfolio management services in respect of exchange-traded futures or options contracts and is not offering to provide such investment advisory or portfolio management services in such provinces by delivery of this material.

Switzerland: This document is provided to you by Goldman Sachs Bank AG, Zürich. Any future contractual relationships will be entered into with affiliates of Goldman Sachs Bank AG, which are domiciled outside of Switzerland. We would like to remind you that foreign (Non-Swiss) legal and regulatory systems may not provide the same level of protection in relation to client confidentiality and data protection as offered to you by Swiss law.

Germany: 1. General Information: Goldman Sachs AG is a stock corporation (Aktiengesellschaft) established under German law with its registered seat in Friedrich Ebert Anlage 49 (Messe Turm), 60327 Frankfurt am Main, Germany, Tel: +49 (0)69 7532 1000. For further information on Goldman Sachs AG and its services please refer to your Goldman Sachs contact. Goldman Sachs AG is authorised and regulated by the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht), Graurheindorfer Str. 108, 53117 Bonn and Lurgiallee 12, 60439 Frankfurt am Main, Germany. Goldman Sachs AG provides certain services including reception and transmission of orders in relation to one or more financial instruments, portfolio management and investment advice as well as advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings. Communication between Goldman Sachs AG and its clients will be in English and/or German, generally orally, in writing (including fax), by email or other electronic means. Please note, however, that orders for the purchase or sale of financial instruments must be given to Goldman Sachs AG orally unless explicitly agreed with Goldman Sachs AG otherwise.

2. Client Classification: Based on the information available to Goldman Sachs AG, Goldman Sachs AG will categorise you as a professional client and you will benefit from those regulatory protections afforded to that category of client under the WpHG. You should be aware that professional clients will not be entitled to certain protections afforded by the WpHG to retail clients. Goldman Sachs AG will provide you with further information on client classification upon request.

3. Nature, Frequency and Timing of Reports: Generally, Goldman Sachs AG does not execute orders, but will place them with executing brokers, including Goldman Sachs group companies. Goldman Sachs AG will not send the client a trade confirmation but Goldman Sachs AG will endeavour that the executing broker will provide the trade confirmation as soon as possible and no later than legally required. Upon request, Goldman Sachs AG provides the client with information about the status of his order.

4. Holding of Financial Instruments and Client Monies: Generally, Goldman Sachs AG does not hold custody over any of its clients' assets or client money. Matters of custody and client money will be dealt with by the respective custodian under its respective governing law. Further details are available on request. However, Goldman Sachs AG is a member of the Compensation Scheme of German Banks (Entschädigungseinrichtung deutscher Banken GmbH) and the Deposit Scheme of the Association of German Banks (Einlagensicherungsfonds des Bundesverband des deutscher Banken).

5. Order Execution: Goldman Sachs AG has put in place arrangements that enable Goldman Sachs AG to comply with applicable requirements in relation to best execution as they apply to investment firms providing services of reception and transmission including an execution policy (the "Execution Policy") information on which is set out below.

5.1 Scope of the Execution Policy: Goldman Sachs AG's Execution Policy applies to clients of Goldman Sachs AG when Goldman Sachs AG receives and transmits orders on behalf of clients and places them with Goldman Sachs AG affiliates or third parties, in each case in respect of financial instruments covered by MiFID and the German Securities Trading Act (Wertpapierhandelsgesetz or "WpHG").

5.2 The relevant obligation: When Goldman Sachs AG receives and transmits an order on behalf of a client or places an order with another entity (including affiliates of Goldman Sachs AG) for execution Goldman Sachs AG will, subject to any specific client instructions, take all reasonable steps to obtain the best possible result taking into account the factors identified in accordance with Goldman Sachs AG's Execution Policy. In such circumstances, Goldman Sachs AG will either determine the ultimate execution venue and give the other broker or dealer a specific instruction to that effect, or Goldman Sachs AG will have satisfied itself that the other broker or dealer has arrangements in place to enable Goldman Sachs AG to comply with its best execution obligation. When Goldman Sachs AG quotes or negotiates with a client the terms of a transaction in which an affiliate is willing to deal with such client as principal for its account, therefore the Execution Policy will not apply, unless a client requests otherwise and Goldman Sachs AG agrees to such request

5.3 Executing firms: Goldman Sachs AG includes in its Execution Policy details of the various executing firms which it accesses for each of the financial instruments covered by MiFID or WpHG in respect of which Goldman Sachs AG places or transmits orders to other entities for execution. Goldman Sachs AG includes those execution firms in its Execution Policy that it believes enable Goldman Sachs AG to obtain on a consistent basis the best possible result when placing client orders. Goldman Sachs AG will usually transmit the orders received for execution to an executing firm for all financial instruments (including equities and fixed income instruments) to a third party or to one of Goldman Sachs AG's affiliates such as Goldman Sachs International, London, to Goldman, Sachs & Co., New York, and to Goldman Sachs Bank AG, Zurich.

5.4 Relevant factors: In circumstances where a client has been classified as a professional client, subject to any specific instructions that Goldman Sachs AG accepts from clients, Goldman Sachs AG takes into account a range of factors that allow Goldman Sachs AG to comply with its requirements in relation to best execution as they apply to investment firms providing services of reception and transmission of orders. These may include price, costs, speed, likelihood of execution and settlement, together with any other consideration relevant to the order. In determining what is the best possible result for a client, Goldman Sachs AG does not compare the results that can be achieved for a client on the basis of its Execution Policy and fees with results that might be achieved for a client by another investment firm on the basis of that firm's execution policy or a different structure of commission or fees, nor does Goldman Sachs AG compare the differences in its own commissions or fees which are attributable to the nature of the services that Goldman Sachs AG provides to clients.

5.5 Monitoring and review: Goldman Sachs AG monitors the effectiveness of its order execution arrangements and Execution Policy on an ongoing basis to identify and implement any appropriate enhancements. In addition, Goldman Sachs AG regularly reviews whether the

brokers and dealers to whom it transmits orders for execution and with whom Goldman Sachs AG may place orders provide for the best possible result for its clients on a consistent basis and whether Goldman Sachs AG needs to make changes to its execution arrangements. Goldman Sachs AG will notify its clients of any material changes of its Execution Policy.

6. Conflicts of Interest: Goldman Sachs AG and its European affiliates ("Goldman Sachs") offer a wide range of financial services to many clients. The broad range of services, such as investment research, investment advice, trading, asset management, corporate finance business including underwriting or selling in an offering of securities and advising on mergers and acquisitions, and the diverse group of clients and products may give rise to a number of competing interests. Goldman Sachs has established, implemented and maintains a written conflicts of interest policy which reflects its approach to managing such competing interests. Goldman Sachs has identified circumstances with reference to specific services and activities, which may give rise to a conflict of interest entailing a material risk of damage to the interests of one or more of its clients. To manage such conflicts Goldman Sachs has principles, procedures and measures that are designed to ensure that the services provided or activities conducted are carried out with integrity and an appropriate degree of independence to protect the interests of clients. These principles, procedures and measures include the prevention or control of information exchange, appropriate organisational structures and supervisory roles (to prevent inappropriate influence of one person over another, or the involvement of a person where such involvement could impair the proper management of conflicts of interest), and avoiding any direct link between the remuneration of employees and revenues generated by them. The policy provides that in certain circumstances it may be appropriate for Goldman Sachs to disclose the general nature of a conflict of interest to a client. Further details of Goldman Sachs' conflicts of interest policy are available on request.

7. Statement of Risks and Nature of Financial Instruments: A client should not deal in a financial instrument unless such client understands the nature and associated risk. A client should also be satisfied that the product is suitable in light of the client's investment objectives, risk affinity, other personal circumstances and the client's financial position. Goldman Sachs AG holds available the information on risks and nature of financial instruments.

8. Cost and Associated Charges: The actual amounts will depend on the service provided to a client. Each client will be provided with information on applicable fees and their method of calculation in writing prior to the provision of an investment service. If you would like additional information on Goldman Sachs AG or any of its affiliates contact your usual Goldman Sachs contact.

Goldman Sachs AG

Bei diesen Informationen handelt es sich um Werbung.

Diese Präsentation darf nur als Ganzes verwendet werden, die Verwendung einzelner Seiten ist nicht genehmigt.

Diese Präsentation dient der Unterstützung unser Vertriebspartner und ist für die Berater in der EEA bestimmt.

Confidentiality

No part of this material may, without GSAM's prior written consent, be (i) copied, photocopied or duplicated in any form, by any means, or (ii) distributed to any person that is not an employee, officer, director, or authorized agent of the recipient.

© 2016 Goldman Sachs. All rights reserved. Compliance Code: 42636-OTU-232916