

GS Small Cap Value Fund

First Quarter 2018

- During the quarter, the GS Small Cap Value Fund (I-Share) outperformed the Russell 2000 Value Index. Our stock selection in the Energy and Real Estate sectors contributed the most to results, while our investments in the Consumer Discretionary and Materials sectors detracted from relative performance.
- RSP Permian, Inc. (1.15% portfolio weight) a petroleum and natural gas exploration company based in Oklahoma, was a top contributor to relative returns. The majority of outperformance followed the announcement that Concho Resources, Inc., a petroleum and natural gas exploration company in the Permian Basin, will acquire RSP Permian in an all-stock transaction valued at approximately \$9.5 billion. We are confident that the combined company, now with the greatest foothold in the Permian, could provide the financial infrastructure and operational efficiencies needed for continued growth and value creation.
- Beacon Roofing Supply, Inc. (0.90% portfolio weight), roofing and building materials company, was a top relative detractor during the quarter. In February, the company reported robust first quarter earnings that were generally positive, besides lower gross margins and a miss to adjusted EBITDA. We believe that gross margins were pressured by cost inflation and could potentially be combated, in part, by balance sheet improvements from tax savings, increased demand for repair and remodeling, and continued pricing power. Generally, we believe Beacon Roofing has a strong fundamental business model supported by a recovering housing market.

2018 Market Outlook

- Following robust first quarter earnings, we remain cautiously optimistic that a favorable macroeconomic backdrop will continue to support US equities.
- As a result of the US tax legislation passed in December, we expect to see additional upside from tax savings deployment, such as capital return in the form of buybacks and dividends, increased mergers and acquisitions, and reinvestments.
- Despite fuller valuations, we believe US equities continue to offer a reasonable risk premium over other asset classes. Additionally, after several years of thematic-driven markets, we are excited about lower correlations at the stock level. We believe an active approach is poised to benefit in this type of environment.

Fund Risk Considerations

The Goldman Sachs Small Cap Value Fund invests primarily in a diversified portfolio of equity investments in small-capitalization issuers. The Fund's 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 or governments and/or general economic conditions. 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. **Different investment styles** (e.g., "quantitative") tend to shift in and out of favor, and at times the Fund may underperform other funds that invest in similar asset classes. **Investing in REITs** involves certain unique risks in addition to those risks associated with investing in the real estate industry in general. REITs whose underlying properties are focused in a particular industry or geographic region are also subject to risks affecting such industries and regions. The securities of REITs involve greater risks than those associated with larger, more established companies and may be subject to more abrupt or erratic price movements because of interest rate changes, economic conditions and other factors.



General Disclosures

EBITDA: Earnings before interest, tax, depreciation, and amortization, is a measure of the company's operating performance.

Gross margin: A percentage of total sales revenue minus its cost of goods sold divided by total sales revenue, is measure of a company's profitability

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.

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The Russell 2000 Value Index is an unmanaged index of common stock prices that measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. The Index figures do not include any deduction for fees, expenses or taxes. It is not possible to invest directly in an unmanaged index.

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