

## GS Small Cap Value Fund

### Full Year 2017

- For the year of 2017, the Goldman Sachs Small Cap Value Fund (“the Fund”) outperformed its benchmark, the Russell 2000 Value Index.
- The Fund’s outperformance was supported by stock selection in the Industrials sector, especially from the Air Freight & Logistics industry.
  - The top contributor relative to the Industrial sector and entire portfolio was **XPO Logistics, Inc.** (1.10% ending portfolio weight), a freight logistics provider based in North America and Europe. The stock had strong performance and earnings throughout the year based on solid execution and improving macro demand since July. In October, the market reacted positively to the announcement of positive third quarter earnings with above-expected revenue and an affirmation of 2017-2018 cash flow expectations. We remain optimistic on XPO’s business, as we believe that it aligns well with the structural changes in freight due to outsourcing, ecommerce, and new federal regulation of electronic logging devices. In our view, XPO could continue margin improvement of existing businesses and better utilize scale and volume by potential merger and acquisition activity.
- The Utilities sector detracted the most from performance, driven by the detraction of the Multi-Utilities industry.
  - The top detractor relative to the Utilities sector was **Black Hills Corp.** (1.04%), a pure-play electrical and gas utility focused on West Coast markets. Following worse-than-expected third quarter earnings, the company lowered its 2017 earnings forecast based on headwinds associated with unfavorable weather, sluggish commercial and industrial load growth, increased expenses, and a more conservative outlook on commercial and industrial electric demand growth. We believe that these challenges are temporary, as the company could see a potential uplift from colder winter weather ahead. Likewise, we believe that the stock trades at a discount to peers, operating in investor-friendly regulatory jurisdictions such as South Dakota and Wyoming. In our view, the migration from legacy coal-fired generation to electric and gas utilities could be a secular tailwind among a changing environment.
- During the year, the Fund sold out of **Radian Group Inc.** (0.00%), and the Fund initiated a position in **Hilton Grand Vacations, Inc.** (1.05%).

### 2018 Market Review

- As we enter 2018, we remain cautiously optimistic that fiscal policy and earnings growth could continue to drive positive growth. In our view, many companies could potentially benefit from the reduction of corporate taxes by virtue of US tax reform in addition to stimulating fiscal policy, including increased spending and a less restrictive regulatory environment.
- All else equal, broadening global growth may be supportive of a continuation in earnings growth and equity market appreciation. While our market return expectations continue to be relatively muted given full valuations, we believe US equities are more attractive than most 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 continue to benefit in this type of environment.

**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



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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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