

# GS Small Cap Value Fund Update

## Outlook

- On the GSAM Fundamental Equity US Small Cap Value Team, we continue to maintain a cycle-tested, disciplined investment approach that has been utilized for over 20 years. Regardless of the market's direction, our fundamental, bottom-up stock selection continues to drive our process, rather than headlines or sentiment. We maintain high conviction in the companies that we own and believe they have the potential to outperform relative to the broader market regardless of the growth environment. We continue to focus on undervalued companies that we believe are in control of their own future, such as innovators with differentiated products, companies with low-cost structures, or ones that have been investing in their own businesses and are poised to gain market share. Some of these high-quality franchises have benefited from secular growth themes that have only accelerated with the recent environment.
- While our GS Small Cap Value Fund invests across the entire market, there are select themes that percolate from the bottom-up. We continue to emphasize businesses with healthy balance sheets, stable free cash flow generation, and differentiated business models aligned to secular advantages. Below is a subset of select themes in our portfolio, driven by our bottom-up views:
  - *Resurgence of Essentials*: as local economies slowly re-open and society adjusts to the new normal, there will be a greater focus on modified social distancing, increased cleaning, and overall health precautions. Market leaders of cleaning and health care service providers will be in high demand.
  - *Domination of the Digital Age*: as life shifts and stays online, there will be a greater digitalization of food service (online ordering/delivery) and ecommerce. Increased ecommerce penetration will give rise to logistics companies and warehouse storage centers with competitive business models.
  - *Re-emergence of a Cautious Consumer*: value-oriented consumer will be seeking affordable and durable products like off-price retailers. Consumers will still want experiences, but will take extra precaution such as ground travel opposed to air travel, camping, and industrial cleaning from hotel chains.
  - *Work From Home (WFH)*: the crisis and shift to a WFH environment has resulted in a demand surge of bandwidth, storage, and speed. We believe that companies will continue to increase their investment in technology infrastructure, including data center Real Estate Investment Trusts (REITs).

## Adapting to a New Economic Environment

- We have made a number of changes in the portfolio recently:
  - In light of the new economic environment, we reduced our positioning in the following areas:
    - Companies that are tied to areas of the market that will continue to be challenged in the near to intermediate term in this global pandemic, including companies tied to aerospace and hotels.

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- E-learning in order to fund more attractive opportunities as the market's appreciation of the theme, which we had previously identified, strengthened.
- Information Technology in favor of better risk-reward opportunities elsewhere in the portfolio. As names in this sector held up relatively well against the more challenged economic backdrop at the onset of the pandemic, we have since lowered our exposure to maintain balance in the portfolio.
- At the same time, we have taken the opportunity to add to a number of positions, including:
  - Select Industrials stocks that we believe will benefit from a pick-up in economic activity and improved manufacturing data.
  - Select Consumer stocks that stand to benefit from continued consumer investment in the home and trends in de-urbanization. Additionally, we have taken advantage of depressed valuations in retail and leisure names which we believe will rebound over the long-term as consumer activity normalizes and a vaccine is developed.
- We maintain our discipline in identifying companies with strong or improving balance sheets, led by quality management teams, trading at discounted valuations, and remain focused on the long-term outperformance of the portfolio.

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