

GS Small Cap Value Fund

First Quarter 2019

- During the quarter, the GS Small Cap Value Fund (I-Share) outperformed the Russell 2000 Value Index. In the portfolio, stock selection within the Information Technology and Industrials sectors contributed to performance, while our investments Real Estate and Materials detracted from relative returns.
- **Apergy Corp.** (0.85% ending portfolio weight), a company that produces specialized polycrystalline diamond cutters and offers services to optimize oil well flows, was a top contributor relative to returns. In mid-February, the company reported above-consensus fourth quarter earnings with a modest earnings-per-share beat coupled with solid free cash flow. The company was very resilient despite weaker commodity prices, and management has provided a positive outlook for 2019, accomplished through topline growth and lower leverage. In efforts to lower leverage and increase the quality of its balance sheet, the company continued to pay down debt, as it had in the second half of 2018. In our view, Apergy is well positioned for long-term growth and strong free cash flow, given increased US oil production and the company's competitive offerings.
- **Burlington Stores, Inc.** (0.58% ending portfolio weight), a major off-price clothing retailer in the US, was a top detractor in the quarter. In contrast to a very strong 2018 calendar year, the company reported weaker-than-expected fourth quarter earnings in early March with weaker sales from a combination of a fashion miss within their Ladies Heritage business and timing issues of inventory. Subsequently, management provided softer guidance for the first quarter due to less clarity of consumer spending per tax refunds and a later Easter season. Despite slower sales and an inventory build-up, we believe that the off-price model is resilient to fashion misses and macro lulls with a quicker-than-average inventory turnover. We favor the off-price model and believe that Burlington could continue to grow the topline through high store productivity.

2019 Market Outlook

- US equities have rebounded from a tumultuous environment in the backend of 2018. Continuing through 2019, we expect markets to appreciate and for earnings to grow, albeit at a more moderate pace.
- The US economic backdrop remains steady with above-trend GDP growth and a solid labor market as demonstrated by a low unemployment rate and wage growth, and we believe that corporate fundamentals remain healthy.
- Regardless of the market direction, our fundamental, bottom-up stock selection continues to drive our process, rather than headlines or sentiment. Instead, we believe that uncertain market conditions call for an experienced active management team that can navigate the more complex environment.
- 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 performance of the portfolio.

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.



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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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