

GS Mid Cap Value Fund – I Shares

1Q 2016 Market Review

Quarter was a tale of two stories:

- Sharp pullback at the beginning of the year as a result of increasing investor concern over China's economy and exacerbated by a decline in oil prices to under \$30 per barrel
- Sharp rally from mid-February through the end of March as a result of:
 - Federal Reserve acknowledgement of material global macro risks which has increased expectations that rates will rise at a slower pace, an event which we believe caused income oriented stocks such as Utilities and Telecom to outperform
 - Rally in oil on the back of better-than-expected demand data and a steeper-than-expected decline in US production guidance, as well as short covering
 - Commodity sensitive stocks, particularly metals & mining companies that were bottom performers in 2015

Portfolio Performance

- In the first quarter of 2016, the GS Mid Cap Value Fund (I-Shares) has underperformed largely due to:
 - 1) Stock selection and positioning in the Financials sector
 - Our overweight to Banks (a sector that was down more than -11%) has detracted from performance due to lowered expectations with respect to interest rates and concerns over loan exposure to the Energy sector
 - Stock selection in Insurance has been impacted by lower interest rates and regulatory concerns surrounding an impending Department of Labor fiduciary ruling relevant to Life Insurance companies
 - 2) Not owning certain economically sensitive, globally exposed and lower quality Materials and Industrials names that rallied sharply in the second half of the quarter
 - A weakening USD and short covering sparked a strong rally in globally exposed, highly levered, high beta Materials and Industrials names that we have chosen not to own due to our quality orientation
 - 3) Being underweight defensive Utilities, which are up ~16% in the Russell Midcap Value Index
 - Our underweight detracted from performance as the sector has outperformed the broader market by over 1,200 basis points as a result of lowered interest rate expectations and an accompanying flight to defensive, yield-oriented securities
- On the positive side, security selection in Energy was strong as the stocks we owned in the sector were up ~16% as compared to the Energy stocks in the index (~3%). Our quality bias has continued to serve us well in navigating this very volatile sector.

Why GS Mid Cap Value Fund Now?

- Our time-tested investment approach has worked:
 - Manage the Fund using the same proven philosophy, process, and focus on quality that has delivered strong results over the past 16+ years (a period that encompasses many cycles).
 - As part of our time-tested, disciplined process, we regularly reevaluate every stock in our Fund and retest every investment thesis to ensure we own the right stocks in the right size. Recently, this has resulted in:
 - Adding to some of our highest conviction names on weakness
 - Exiting positions where our investment thesis was broken or invalidated
 - Reducing some pro-cyclical positions given the increased macroeconomic risks
 - Increasing exposure to high-quality, domestically-oriented names given relative strength of the US economy



- As of March 31, 2016, we maintained a higher quality portfolio at a more attractive valuation than the benchmark
- The team remains intensely focused on delivering strong long-term results for our clients.
- We are excited about the names we own and believe that our time-tested investment approach has the potential to generate strong returns over the long run

Risk Considerations

The Goldman Sachs Mid Cap Value Fund invests primarily in mid-capitalization U.S. equity investments. The Fund's equity 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 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., "value") tend to shift in and out of favor, and at times the Fund may underperform other funds that invest in similar asset classes.

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Pro-cyclical refers to the tendency of certain securities, industries, and sectors to move in the same direction as the economy.

The Russell Midcap Value Index measures the performance of the mid-cap value segment of the U.S. equity universe. It includes those Russell Midcap Index companies with lower price-to-book ratios and lower forecasted growth values. It is not possible to invest directly in an unmanaged index.

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