



GS International Small Cap Fund

Market review

After a big gain in February, the S&P Developed ex-US Small Cap Index gave back 1.24% in March, ending the quarter up 4.35% (in USD). Currency continued to impact equity returns as the euro sank further to a 12-year low against the US dollar in March. Many European stock markets gained during March in local currency because the weak euro is generally helping European corporate earnings and some European economic data came in better than expected. However, the continued decline against the USD meant that returns expressed in USD were actually negative. Japanese equities outperformed during the month as the weak yen continues to benefit many Japanese companies and sentiment continues to improve. While low oil prices mean that inflation is falling far short of the target, many market participants expect this might lead to further stimulus. Only the Healthcare sector gained during the month amidst continued strong M&A activity. Australian equities were weak in March as the Materials and Energy sectors underperformed during the period.

Performance attribution

The GSAM International Small Cap Fund outperformed its benchmark (net of fees), the S&P Developed ex-US Small Cap Index, during the first quarter of 2015. For the quarter, the fund's stock selection in the Materials and Information Technology sectors contributed to relative returns, while poor stock selection in Consumer Staples and the Health Care sectors detracted from returns. For the quarter, Japan was the best performing region while Europe was the largest detractor.

Contributors

The South Korean based materials manufacturer, **OCI Materials (0.81%)** was the top contributor to the strategy during the first quarter. OCI's products are used in the manufacturing process of semiconductor, TFT-LCD (thin-film-transistor liquid crystal display – a variant of a liquid crystal display) and solar-cells, and film deposition. With roughly 50% exposure each to the semiconductor and LCD industries, in terms of client-mix, both clients are showing strong order flows; however, increasingly so from the semiconductor. In our view, incremental volume increase may come from potential capacity expansion that is very likely as talks with major clients indicate that there may be an industry-wide supply shortage in the next 6-12 months without any immediate capex (capital expenditures are expenditures altering the future of the business) decision.

Asahi Intecc (1.10%), was the second largest contributor to the strategy in the first quarter. Asahi Intecc develops and supplies wire materials and products mainly in the medical field. Recently, Asahi's advanced technologies have been well-evaluated among the doctors who engage in cardiovascular surgery. Therefore, the global market share of the guide-wires (a device used as a guide for placement of a larger device or prosthesis) gains continuously, and became the No.1 company. In fact, for the 2Q result of this fiscal year, the operating profit increased by 32% and the company revised its full year's earnings forecast up due to strong sales in the US and in Europe. Investors are expecting this trend will continue for the next couple of quarters.

Detractors

Within the Consumer Discretionary sector, our position in **Broccoli (0.00%)**, a manufacturer of character-themed goods such as trading card games, books, CDs, and stationery items, detracted from performance. The stock underperformed mainly due to the connection issue on a new network game which was launched in December. Investors had expected that the launch of a new smartphone game would be a catalyst for rapid earnings growth in the next fiscal year. However, since the technical glitch, the number of downloads has not been increasing resulting in the exit of our position in the company.

The second largest detractor from the strategy in the first quarter was **Gerry Weber (0.62%)**, a German retailer of women's clothing and accessories. The stock underperformed largely due to disappointing 4Q results where poor weather affected sales growth negatively. We continue to hold the position as we expect the weather effect to be temporary and for the company to benefit as it opens new stores in Germany and internationally.

Past performance does not guarantee future results, which may vary. Fund holdings and allocation shown are unaudited, and may not be representative of current or future investments. Fund holdings and allocations may not include the Fund's entire investment portfolio, which may change at any time. Fund holdings should not be relied on in making investment decisions and should not be construed as research or investment advice regarding particular securities. Current and future holdings are subject to risk.

Positioning

Purchases

Over the quarter we initiated a position in the Finnish sports equipment and apparel manufacturer, **Amer Sports (1.04%)**. We initiated the position because we believe the company will be benefitting from strong growth in their growing apparel and footwear line up and from margin expansion in their restructured Ball Sports division. We have recently trimmed the position slightly to reflect strong stock performance.

We also added **GMO Internet (0.93%)**. The company provides whole internet related services to customers. The company offers domain, server, internet security and settlement service through “WEB Infrastructure & EC” business. We expect earnings recovery in FY2015 thanks to an increase of commercial transaction via the internet. The share price underperformed in last year and the valuation has been very cheap.

We sold out of **Daicel (0.00%)** stock as the upside became limited due to the outperformance, and also its expected earnings growth rate for next fiscal year was relatively less attractive compared with other holding names. In FY2015/3, the company benefited from weaker Japanese Yen and raw material costs, especially lower methanol prices. The same business environment could continue for FY2016/3, but its share price has already incorporated a positive business environment.

We also exited our position in **Hanjin Kal (0.00%)** as we believe we have captured the upside potential in this security – we booked out profits.

Outlook

While equity markets have rallied substantially since March 2009, underlying economic growth has actually been slow and uneven. The global macroeconomic challenges and uncertainties in recent years have dampened the confidence and sentiment of investors and company managements alike. We believe mindsets are now changing as economic growth improves and several negative factors fade. Looking forward, we believe more companies should be rewarded for increasing capital expenditures, research and development spending, merger and acquisition activity, and hiring, rather than keeping excessive cash on balance sheets and paying dividends.

However due to these macro concerns, we believe fundamental analysis is even more critical in selecting companies which exhibit characteristics of what we deem to be a quality company. In our view, the relatively inefficient nature of small cap equity markets creates a fertile space to generate alpha, and we seek to exploit that alpha potential through our core strength and stock selection, rather than through top-down region or sector calls. Many small cap companies should remain within that universe over time, rising or falling on the economic tide. However, we target those companies that, due to a confluence of factors, are well positioned to grow beyond the small cap universe or gain the attention of a larger corporate entity and be acquired along the way. Those factors include, but are not limited to, a differentiated product or service, identifiable barriers to entry, a scalable market opportunity, and an experienced management team with a clear and credible strategy.

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Alpha - The excess return of the fund relative to the return of the benchmark index is a fund's alpha.

Risk Considerations:

The Goldman Sachs International Small Cap Fund invests primarily in a diversified portfolio of equity investments in non-U.S. small-capitalization companies. The Fund is 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. **Foreign and emerging markets investments** may be more volatile and less liquid than investments in U.S. securities and are subject to the risks of currency fluctuations and adverse economic or political developments. 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.

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.

Fund weights of discussed securities are included in the above text as of December 31, 2014.

Fund inception date: 01-May-98.

Standardized Total Returns – I shares as of March 31, 2015

1 Year: -2.03%

5 Year: 10.01%

10 Year: 5.17%

Since Inception: 6.52%

Current Expense Ratio (net): 0.97%

Expense Ratio Before Waivers (gross): 1.37%

The returns represent past performance. Past performance does not guarantee future results. The Fund's investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted above. Please visit our Web site at: www.gsamfunds.com to obtain the most recent month-end returns.

Standardized Total Returns are average annual total returns or cumulative total returns (only if the performance period is one year or less) as of the most recent calendar quarter-end. They assume reinvestment of all distributions at net asset value. Because Institutional Shares do not involve a sales charge, such a charge is not applied to their Standardized Total Returns.

The expense ratios of the Fund, both current (net of any fee waivers or expense limitations) and before waivers (gross of any fee waivers or expense limitations) are as set forth above. Pursuant to a contractual arrangement, the Fund's waivers and/or expense limitations will remain in place through at least June 30, 2015, and prior to such date the Investment Adviser may not terminate the arrangements without the approval of the Fund's Board of Trustees.

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A summary prospectus, if available, or a Prospectus for the Fund containing more information may be obtained from your authorized dealer or from Goldman, Sachs & Co. by calling (retail - 1-800-526-7384) (institutional – 1-800-621-2550). Please consider a fund's objectives, risks, and charges and expenses, and read the summary prospectus, if available, and the Prospectus carefully before investing. The summary prospectus, if available, and the Prospectus contains this and other information about the Fund.

Index Benchmarks

The S&P Developed ex-U.S. SmallCap is the small capitalization stock component of the S&P Developed Broad Market Index (BMI). The BMI is a float-weighted index that spans 22 countries and includes the listed shares of all companies with an available market capitalization (float) of at least \$100 million at the annual reconstitution, using end of July data. At reconstitution, companies are deleted from the index if their float falls below \$75 million. Reconstitution changes are effective before the open of the first business day of October.

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