

# Strategic Income Fund Monthly Update

January 2017

Class A: GSZAX | Class C: GSZCX | Class IR: GZIRX | Class I: GSZIX | Class R6: GSZUX | Class R: GSZR

## Overview

The Fund started off 2017 on a positive note under the backdrop of various events, including US President Donald Trump issuing a string of executive orders. We believe a more protectionist stance on trade is likely to add to inflationary pressures arising from a tightening labor market and potential fiscal stimulus. The Federal Open Market Committee (FOMC) left its policy stance unchanged at its latest meeting and the statement indicated no sense of urgency to tighten. Our base case is that the Fed remains on hold in March; however, we continue to expect the Fed to raise rates this year.

From a credit perspective, we still prefer securitized credit for yield over corporate credit. On the corporate side, topics that we are mindful of watching are tax reform, infrastructure spending, and legislative changes. Our primary allocation remains concentrated in high-quality collateralized loan obligations (CLOs) and Federal Family Education Loan Program (FFELP) student loan-backed securities, in keeping with our focus on high quality instruments offering carry opportunities. We believe these types of securitized credit are better equipped to endure credit market volatility.

## Fund Performance

### Contributors

Within macro strategies, the country strategy contributed to performance driven by various trades such as long Australia versus short US and long Germany versus short France.

Within sector strategies, the government/swaps strategy contributed to performance driven by our yield curve steepeners in Europe.

### Detractors

The largest detractor from performance was our currency strategy due to our short positions in Asian currencies such as the Taiwan dollar and Korean won.

**Standardized Total Returns for period ending December 31, 2016: Since Inception: 2.96%; 1 yr: 2.53%; 5 yr: 3.86%. The 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 returns represent past performance. Performance reflects cumulative total returns for periods of less than one year and average annual total returns for periods of greater than one year. 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](http://www.GSAMFUNDS.com) to obtain the most recent month-end returns. Returns less than one year are cumulative, not annualized. Morningstar Risk-Adjusted Ratings: Nontraditional Bond Category- Class I Shares 3 Year 2 star out of 252 funds, 5 Year 4 stars out of 176 funds. The Overall Rating is derived from a weighted average of the performance figures associated with its 3-, 5-, and 10-year (if applicable) Morningstar Rating Metrics.**

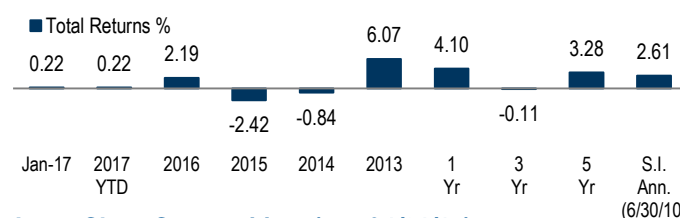
**The expense ratios of the Fund do not have a fee waiver and expense limitation. The Net and Gross expense ratios will be the same.**

**1. Total Average Duration:** Duration is a measure of the sensitivity of the price of a bond or portfolio to a change in interest rates paid. The larger the number (positive or negative), the greater the change in price for given changes in interest rates. When duration is positive a rise in interest rates results in a fall in price while for a negative duration a rise in interest rates results in a rise in price. **Interest Rate Duration:** This is a modified measure of Total Average Duration that has been estimated by GSAM. This modified measure seeks to take account of the different behaviors of different bond markets around the world by re-expressing all duration exposures to a common US market standard. The goal is to improve the estimate of the portfolio's sensitivity to changes in interest rates. This estimate is guided by historical market observations amongst markets which are themselves subject to change over time and may not necessarily be reflected by the actual outcome. **2. The method of calculation of the 30-Day Standardized Subsidized Yield** is mandated by the Securities Exchange Commission and is determined by dividing the net investment income per share earned during the last 30 days of the period by the maximum public offering price ("POP") per share on the last day of the period. This number is then annualized. **The 30-Day Standardized Subsidized Yield** reflects fee waivers and/or expense reimbursements recorded by the Fund during the period. Without waivers and/or reimbursements, yields would be reduced. This yield does not necessarily reflect income actually earned and distributed by the Fund and, therefore, may not be correlated with the dividends or other distributions paid to shareholders. **The 30-Day Standardized Unsubsidized Yield** does not adjust for any fee waivers and/or expense reimbursements in effect. If the Fund does not incur any fee waivers and/or expense reimbursements during the period, the 30-Day Standardized Subsidized Yield and 30-Day Standardized Unsubsidized Yield will be identical. **3. The Distribution Rate is the net annualized distribution rate for the month, based on the average daily income dividend during the period and the ending net asset value (NAV) per unit. The NAV is the market value of one share of the Fund.**

## Class A Rankings (as of 1/31/17)

Overall Morningstar Ratings	Lipper Rankings (Alternative Credit Focus Funds)	
★★★ (235 Nontraditional Bond Funds)	1 Year	244 out of 285 funds
	3 Year	138 out of 166 funds
	5 Year	24 out of 114 funds (top 21%)

## Class A Performance at NAV (as of 1/31/17)



## Asset Class Composition (as of 1/31/17)

Government/Quasi-Gov	28%	Corporate - Bank Loan	2%
Municipal	2%	Corporate - Collateralized	15%
ABS	13%	Loan Obligations	
CMBS	1%	Emerging Market Debt	7%
Agency RMBS	4%	Equity	1%
Non-Agency RMBS	9%	Cash*	9%
Corporate - Inv. Grade	3%	Derivatives**	2%
Corporate - High Yield	3%		

## Summary Statistics (as of 1/31/17)

AUM (All Share Classes)	\$8,420M
Total Average Duration <sup>1</sup> /Interest Rate Duration (Years)	0.98 / -0.41
30-Day SEC Yields (I-Shares), Subsidized/Unsubsidized <sup>2</sup>	1.01% / 1.01%
30-Day Distribution Rate (A-Shares, Net)	
Monthly 30-Day Distribution Rate <sup>3</sup>	1.39%
Last 12 Month Distribution Rate (Average)	1.82%
Since Inception Distribution Rate (Average)	3.02%
Rolling 12-Month Returns (%) Best/Worst	15.23 / -5.50
Number of Positive / Negative Quarters	18/8 out of 26 Quarters
Best / Worst Quarterly Return (%)	5.26 (3Q12) / -3.18 (3Q11)
Expense Ratios (I-Shares), Net/Gross	0.57% / 0.57%

<b>PORTFOLIO INTEREST RATE DURATION<sup>4</sup> (YRS)</b>					-0.41
Duration Strategy	-0.48	Country Strategy	0.24	Other <sup>5</sup>	-0.17

## Top-Down Macro Strategies

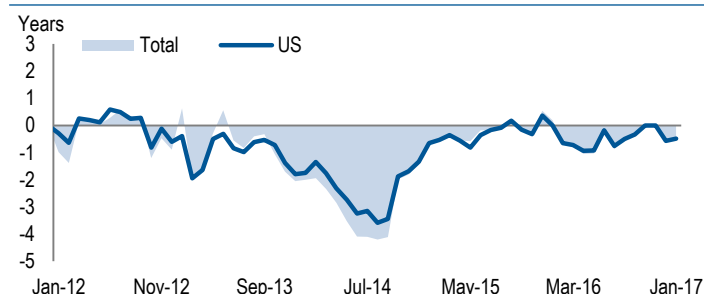
### DURATION

- During the month, we held an outright short in US rates (-0.48 years). Yellen's relatively hawkish comments, recent easing in US financial conditions, and continued strength in economic data open the door for multiple potential rate hikes this year.
- Key economic data included fourth quarter gross domestic product (GDP) which showed the economy expanded 1.9% year-over-year. The headline figure missed consensus expectations but underlying components reflected positive developments.

### Contribution of Duration Strategy to Interest Rate Duration

				<b>-0.48</b>	
US	-0.48	Europe	0.00	Japan	0.00

### Interest Rate Duration<sup>4</sup> (Years): Total and US



### COUNTRY

- We are long Canadian and Australian rates versus short US rates. The Bank of Canada kept policy unchanged at its first meeting of the year and we see little scope for rate hikes this year. We believe the Reserve Bank of Australia (RBA), which is balancing the impact of strengthening commodity prices and weak economic growth, is likely to maintain an easing bias.
- We are long Europe versus short the UK. We expect recent outperformance of long-end UK rates to reverse as the Bank of England (BoE) quantitative easing program nears its end. We expect the ECB to maintain accommodative monetary policy through 2017 amid a weak core inflation backdrop and heightened political uncertainty from upcoming elections.

### Key Themes

Relative Value	European Sovereigns	Outright Monetary Policy
Long Australia/Canada vs. short US		Long New Zealand
Long Europe vs short UK		

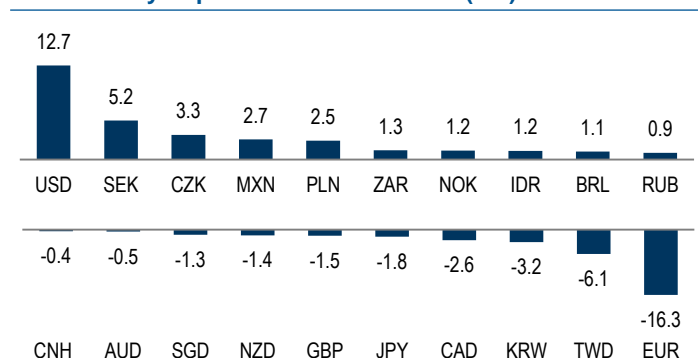
### Country (Years)

				<b>0.24</b>
US	-0.61	Europe	0.95	
UK	-1.00	Japan	-0.04	
Other	0.94			

### CURRENCY

- We remain long the US dollar as we believe the market is underpricing the extent to which the Fed will raise interest rates this year and we believe protectionist measures such as border-adjusted taxation and import tariffs could lead to US dollar strength.
- We are short the euro versus other European currencies, such as the Swedish krona as we expect the European Central Bank to maintain accommodative policy amid heightened political uncertainties.
- Our outlook for select emerging market currencies has been more constructive on the back of an improving global growth picture and relatively subdued market volatility.

### Net Currency Exposure in Market Value (MV)\*



\* Net currency exposure is not inclusive of all currency positions in the portfolio. Data reflects top and bottom 10 positions by market value, respectively.

4. Interest Rate Duration: This is a modified measure of Total Average Duration that has been estimated by GSAM. This reflects the general proxy for interest rate sensitivity across the portfolio, incorporating the Duration Team's active views on interest rates of G4 countries, the Country Team's relative value trades in interest rates of various countries, and other strategy teams' views within the portfolio. As a result, there could be long and short trades that contribute to the overall interest rate duration, irrespective of the Duration Team's views. This modified measure seeks to take account of the different behaviors of different bond markets around the world by re-expressing all duration exposures to a common US market standard. The goal is to improve the estimate of the portfolio's sensitivity to changes in interest rates. This estimate is guided by historical market observations amongst markets which are themselves subject to change over time and may not necessarily be reflected by the actual outcome. Interest rate duration measures the Fund's total holdings, and reflects an "other" category which aggregates interest rate duration contributed by any countries in the portfolio outside of the US, Europe, UK and Japan. 5. Other refers to duration contribution from other strategies.

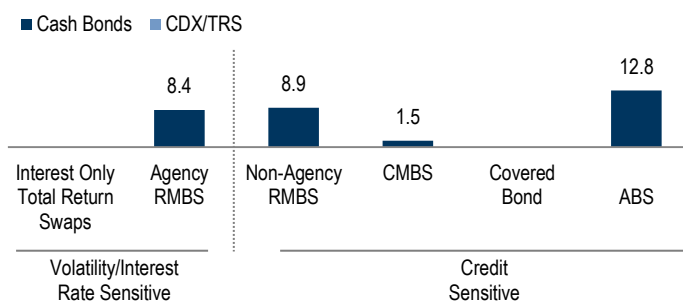
Please see Glossary of Terms and Currency and Security Abbreviations on page 6.

## Bottom-Up Sector Strategies

### SECURITIZED Securitized inclusive of CDX exposure (Current MV%: 31%; Previous Month's MV%: 28%)

- We continue to favor high quality securities that have limited exposure to the risk that credit spreads will widen as well as legacy non-agency RMBS. We believe that legacy non-agency RMBS offer attractive spread and performance should be bolstered by positive home price gains and a stronger US consumer.
- In our view, FFELP ABS will benefit from renewed investor confidence, as Moody's completed its reviews of FFELP ABS in early December and Fitch is expected to finish its reviews in early 2017. The loans backing FFELP ABS feature a US government guarantee of at least 97% and they offer incremental spread pickup versus other ABS sectors.

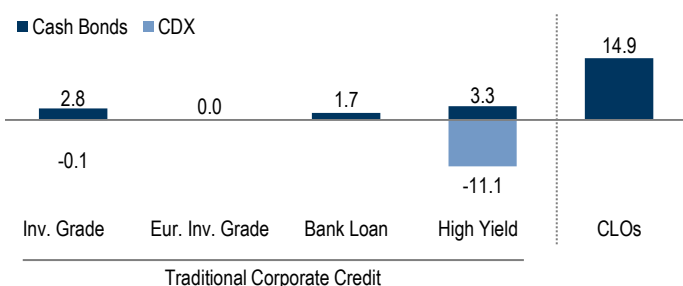
#### Market Value %



### CORPORATE CREDIT Traditional Corporate Credit inclusive of CDX exposure (Current MV%: -3%; Previous Month's MV%: -7%)

- In corporate credit, we own a select number of investment grade and high yield bonds on the basis of expectation for an improvement in corporate fundamentals, a pick-up in earnings, and stabilizing leverage. However, we are cognizant of late-stage credit cycle characteristics, as well as the impact of a more hawkish stance by Fed. As such, we hold shorts in CDX.
- We continue to hold high-quality CLOs, which we believe are among the most attractive investments in the securitized space. Newly-issued AAA CLOs enjoy 35–40% enhancement, while we expect annualized high yield loan default rates to remain low, indicating that these securities may be well-equipped to endure credit market volatility.

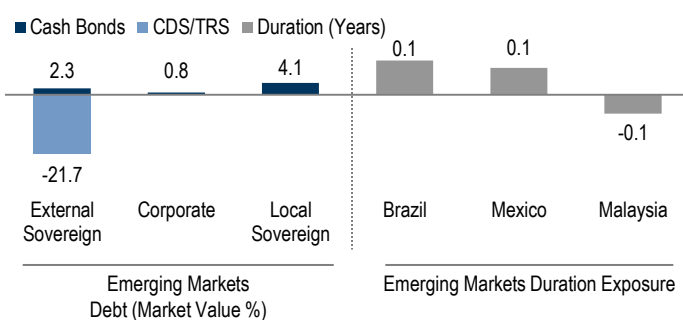
#### Market Value %



### EMERGING MARKET DEBT Emerging Market Debt (Current MV%: -15%; Previous Month's MV%: -15%)

- We hold modest positions in select emerging market debt. While we remain long Brazil and Mexico local debt, we are short China via credit default swaps.
- In China, we see imbalances growing and remain mindful of a possible downturn in the business cycle.

#### Market Value %



### GOVERNMENT/SWAPS

- We predominantly hold yield curve steepeners in the US, Canada, and Europe. We are positioned for steepening in the US curve amid a strengthening US economy and Fed rate hiking cycle.
- We remain long US Treasury inflation protected securities (TIPS) in light of Trump's potential fiscal, tax and trade policies, which we perceive to be inflationary.

#### Key Themes

Curve Trades	Security Selection	Interest Rate Volatility
US/Canada/Europe (Yield Curve Steepener)	TIPS (US)	

Steepener implies shorter-maturity interest rates fall and/or longer-maturity interest rates rise. Flattener implies shorter-maturity interest rates rise and/or longer-maturity interest rates fall.

### MUNI Municipal Debt (Current MV%: 2%; Previous Month's MV%: 2%)

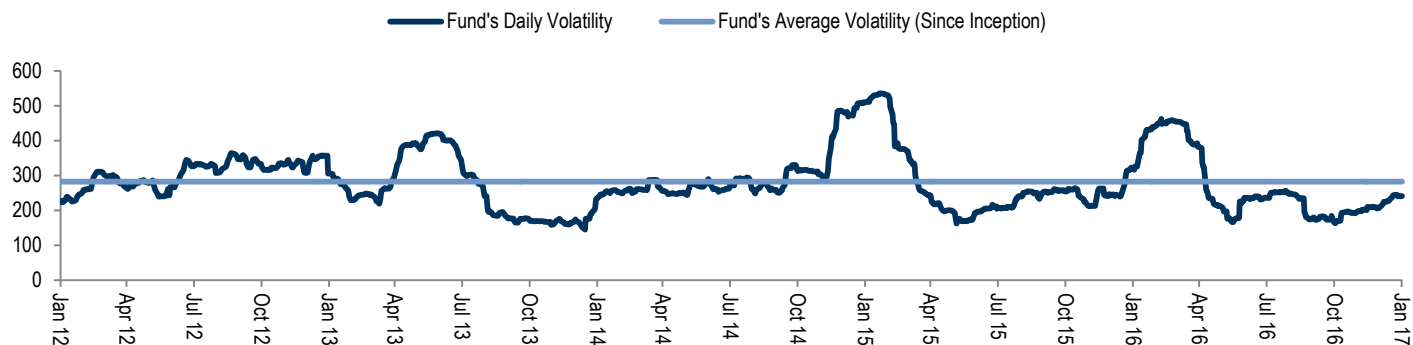
- We hold modest long positions predominately in general obligation and sales tax bonds in Puerto Rico. The team awaits further direction from the newly-appointed governor to come up with a credible fiscal plan.

#### Market Value

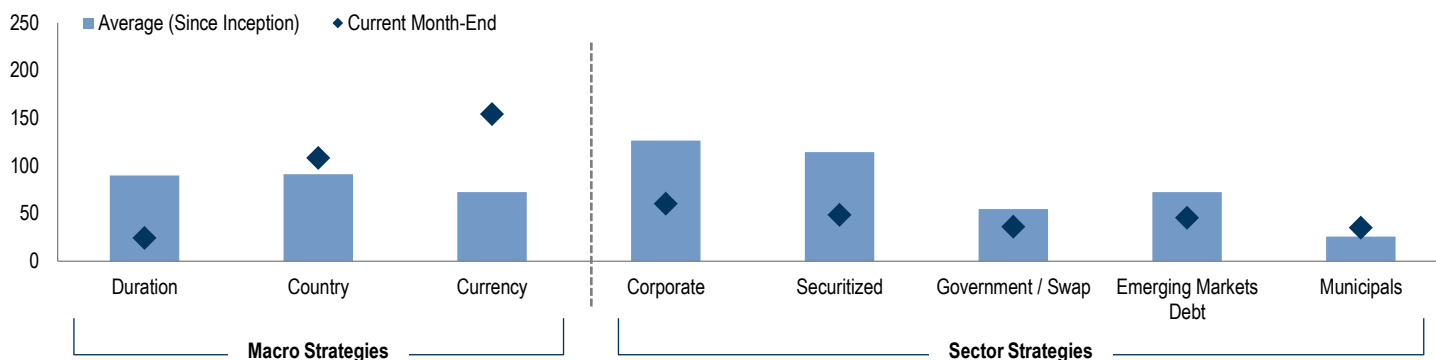
Investment Grade	High Yield	Build America Bonds	Municipal CDX
0.00%	1.78%	0.00%	0.00%

## Risk Summary

### Realized Volatility<sup>5</sup> (bps<sup>6</sup>)



### Contribution to Risk by Strategy (bps)<sup>7</sup>



### Attribution Summary (bps)<sup>8</sup>

	2017	2016	2015	2014	2013	2012	2011
<b>Total Portfolio (Gross)<sup>2</sup></b>	37	309	-155	10	709	1447	-150
Duration	-5	-13	-60	-264	-33	73	-4
Country	11	89	105	104	177	38	-7
Currency	-31	-9	-26	168	33	102	-59
Securitized	14	156	15	68	234	653	-100
Corporate	13	-108	-164	22	271	242	47
Gov't / Swaps	13	71	21	-18	68	107	25
Emerging Markets Debt	5	36	-13	-38	-54	247	-14
Municipals	8	31	-59	-12	16	0	3

The returns presented herein are gross and do not reflect the deduction of investment advisory fees, which will reduce returns. Past performance does not guarantee future results, which may vary.

5. Realized volatility based on rolling 60-day returns. A statistical measure of volatility indicates the "risk" associated with a return series. To calculate the Fund's current volatility, greater than a single day's return is needed as volatility is a function of the difference in magnitude from one return to another. We believe using 60-day volatility is a common measure for short term risk.

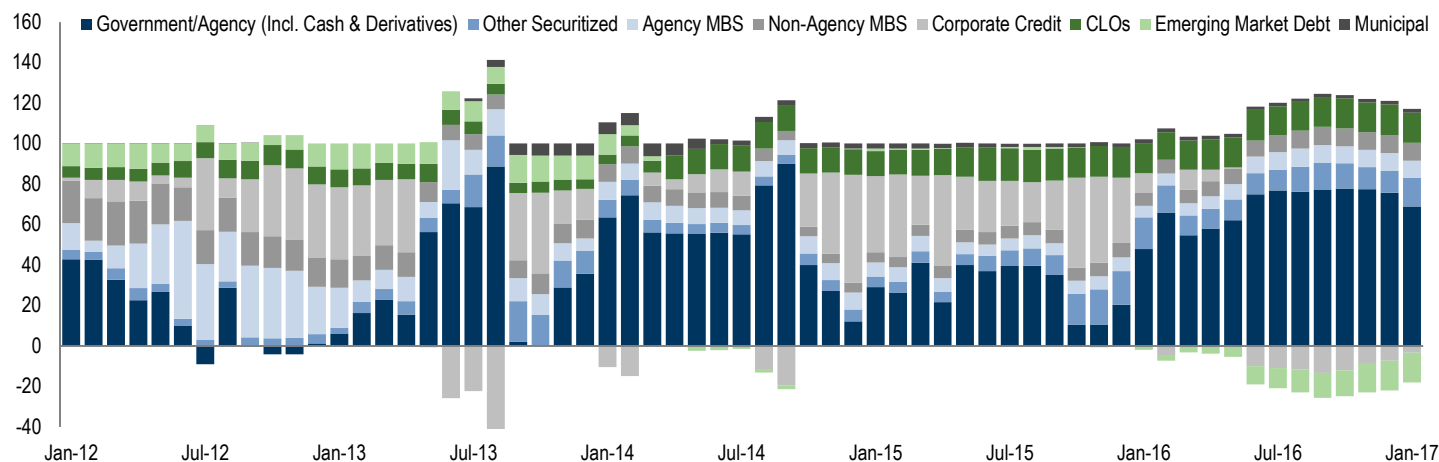
6. Bps or basis points. 1% change = 100 basis points, and 0.01% = 1 basis point.

7. Based on realized risk. Risk quoted as of month-end calculated using previous 60-day returns. Risk quoted for "since inception (average)" calculated using annualized monthly volatility of the strategies. Sector strategies' attribution include both sector as well as selection decisions.

8. Attribution summary represents gross returns for the portfolio, and its eight contributing strategies: Duration, Country, Currency, Securitized, Corporate, Emerging Markets Debt, Government/Swaps, and Municipals. Eight strategies represent excess return and do not include intraday/transaction returns; eight strategies will not sum to total portfolio (gross) performance. Attribution is produced by GSAM Fixed Income through our proprietary risk model, and the assignment of attribution from varying trades and positions to the underlying strategies is done at the discretion of the manager.

## Sector Allocations

Market Value %



Correlations and Volatility (I-shares) (as of 12/31/16)	Annualized Volatility (since 6/30/10)	Correlations to GS Strategic Income Fund (Last 3 mo.)	Correlations to GS Strategic Income Fund (Last 12 mo.)	Correlations to GS Strategic Income Fund (since 6/30/10)
<b>GS STRATEGIC INCOME FUND (I-SHARES)</b>	<b>3.47%</b>	--	--	--
<b>INVESTMENT GRADE FIXED INCOME</b>				
Bloomberg Barclays US Aggregate Bond Index	2.85%	(0.25)	(0.25)	(0.26)
Bloomberg Barclays US Treasury Index	3.49%	(0.25)	(0.31)	(0.32)
Bloomberg Barclays US TIPS Index	4.83%	(0.22)	(0.16)	(0.18)
Bloomberg Barclays US Corporate Investment Grade Index	4.28%	(0.26)	(0.14)	(0.17)
Bloomberg Barclays Global Aggregate Index (USD Hedged)	2.65%	(0.14)	(0.24)	(0.24)
<b>MUNICIPAL FIXED INCOME</b>				
Bloomberg Barclays Aggregate Municipal Bond Index	3.87%	0.04	(0.18)	(0.21)
Bloomberg Barclays Municipal High Yield Bond Index	5.98%	0.09	0.04	0.01
<b>HIGH YIELD FIXED INCOME</b>				
S&P/LSTA Leveraged Loan Index	3.33%	0.14	0.45	0.29
Bloomberg Barclays US Corporate High Yield Bond Index	6.30%	0.17	0.49	0.50
<b>EMERGING MARKETS FIXED INCOME</b>				
J.P. Morgan Corporate Emerging Markets Bond Index (Broad Diversified Index)	4.79%	0.15	(0.08)	0.03
J.P. Morgan EMBI Global Diversified Index (External)	6.77%	0.13	0.24	0.24
J.P. Morgan GBI-EM Global Diversified Index (Local)	12.48%	0.22	0.19	0.14
<b>EQUITIES</b>				
S&P 500 Index	12.00%	0.14	0.31	0.36
MSCI World Index	13.47%	0.08	0.36	0.37
MSCI Emerging Markets Index	18.18%	0.20	0.31	0.26
S&P US Preferred Stock Index	6.20%	0.04	0.38	0.22
Alerian MLP Index	17.16%	0.03	0.34	0.25
<b>HEDGE FUNDS</b>				
HFRX Global Hedge Fund Index	4.01%	0.16	0.41	0.41
<b>COMMODITIES</b>				
WTI Oil Index	29.69%	0.05	0.31	0.23

Annualized volatility calculated using monthly returns. Correlations calculated using daily returns. Please note the Fund is priced daily at 4:00 PM EST which may differ from the time other market indices or Funds are priced, particularly those based within Asian and European markets. These differences, amongst other considerations, may influence the correlation statistics generated. Past correlations are not indicative of future correlations, which may vary.

Source: All data from GSAM. Data as of January 31, 2017 and subject to change.

\* **Cash** may include local currency, foreign currency, short-term investment funds, bank acceptances, commercial paper, margin, repurchase agreements, time deposits, variable-rate demand notes, and/or money market mutual funds. The Cash category may show a negative market value percentage as a result of a) the timing of trade date versus settlement date transactions and/or b) the portfolio's derivative investments, which are collateralized by the portfolio's available cash and securities. Such securities are AAA rated by an independent rating agency, have durations between -2 and 1 years, and are limited to the following sectors: governments, agencies, supranationals, corporates, and agency-backed adjustable-rate mortgages.

\*\* **Derivatives** (guidelines permitting) may include futures, swaps, options, and forwards and may be used for hedging purposes and/or to express outright investment views. The table's market value percentage total for derivatives reflects aggregated unrealized gains or losses on all derivative positions.

**Lipper Total Return Rankings**—Lipper Analytical Services, Inc., an independent publisher of mutual fund rankings, records rankings for these and other Goldman Sachs Funds for one-year, three-year, five-year, and ten-year total returns periods. Lipper compares mutual funds within a universe of funds with similar investment objectives, including dividend reinvestment. Lipper rankings are based on **total return** at net asset value and do not reflect sales charges. Lipper rankings do not imply that the fund had a high total return.

**Morningstar Ratings**—Morningstar, Inc. is an independent publisher of mutual fund research and ratings. Ratings reflect a fund's risk-adjusted 3-, 5-, and 10-year total returns, including any sales charge. A Fund is rated against all other funds in its category. 5 stars are assigned to the top 10%; 4 stars to the next 22.5%; 3 stars to the next 35%; 2 stars to the next 22.5%; and 1 star to the bottom 10%. Morningstar only rates funds with at least a 3-year history. ©2016 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is not guarantee of future results. **Rankings for other share classes may vary.**

#### **Goldman Sachs Strategic Income Fund Risk Considerations**

The **Goldman Sachs Strategic Income Fund** invests in a broadly diversified portfolio of U.S. and foreign investment grade and non-investment grade fixed income investments including, but not limited to: U.S. government securities, non-U.S. sovereign debt, agency securities, corporate debt securities, agency and non-agency mortgage-backed securities, asset-backed securities, custodial receipts, municipal securities, loan participations and loan assignments and convertible securities. Investments in fixed income securities are subject to the risks associated with debt securities generally, including **credit, liquidity and interest rate risk**. Investments in **mortgage-backed securities** are also subject to, among other risks, prepayment risk (i.e., the risk that in a declining interest rate environment, issuers may pay principal more quickly than expected, causing the Fund to reinvest proceeds at lower prevailing interest rates). **High yield, lower rated investments** involve greater price volatility, are less liquid and present greater risks than higher rated fixed income securities. **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 Fund is also subject to the risk that the issuers of **sovereign debt** or the government authorities that control the payment of debt may be unable or unwilling to repay principal or interest when due. The Fund may be more sensitive to adverse economic, business or political developments if it invests a substantial portion of its assets in bonds of similar projects or in particular types of **municipal securities**. The Fund may invest in **loans** directly, through loan assignments, or indirectly, by purchasing participations or sub-participations from financial institutions. Indirect purchases may subject the Fund to greater delays, expenses and risks than direct obligations in the case that a borrower fails to pay scheduled principal and interest. **Derivative instruments** may involve a high degree of financial risk. These risks include the risk that a small movement in the price of the underlying security or benchmark may result in a disproportionately large movement, unfavorable or favorable, in the price of the derivative instrument; risks of default by a counterparty; and liquidity risk. At times, the Fund may be unable to sell certain of its **illiquid investments** without a substantial drop in price, if at all. The Fund is subject to the risks associated with implementing short positions. **Taking short positions** involves **leverage** of the Fund's assets and presents various other risks. Losses on short positions are potentially unlimited as a loss occurs when the value of an asset with respect to which the Fund has a short position increases.

**The Investment Adviser will not manage the investment program of the Fund by reference to a benchmark index (i.e., unconstrained). By removing benchmark constraints, the Fund is able to invest across the global fixed income spectrum without regard to sector, quality, maturity or market capitalization limitations, including in asset classes in which more traditional or benchmark-constrained fixed income funds do not typically invest (or do not invest to such an extent). Due to this flexible strategy, the Fund's risk exposure may vary, and the Fund may underperform traditional fixed income indices. There can be no assurance that the discretionary element of the investment processes of the Investment Adviser will be exercised in a manner that is successful or that is not adverse to the Fund, or that the Fund will outperform more traditional or benchmark-constrained fixed income funds.**

**This material is not authorized for distribution unless preceded or accompanied by a current prospectus or summary prospectus, if applicable. Investors should consider a fund's objectives, risks, and charges and expenses, and read the summary prospectus, if available, and the prospectus carefully before investing or sending money. The summary prospectus, if available, and the Prospectus contains this and other information about the Fund.**

Economic and market forecasts presented herein reflect our judgment as of the date of this presentation and are subject to change without notice. These forecasts do not take into account the specific investment objectives, restrictions, tax and financial situation or other needs of any specific client. Actual data will vary and may not be reflected here. These forecasts are subject to high levels of uncertainty that may affect actual performance. Accordingly, these forecasts should be viewed as merely representative of a broad range of possible outcomes. These forecasts are estimated, based on assumptions, and are subject to significant revision and may change materially as economic and market conditions change. Goldman Sachs has no obligation to provide updates or changes to these forecasts. Case studies and examples are for illustrative purposes only.

The High Yield and Emerging Market Debt sectors involve exposure to higher credit risk, currency risk and liquidity risk. High yield, lower rated securities involve greater price volatility and present greater risks than higher rated fixed income securities. Fixed income securities of emerging countries are less liquid and are subject to greater price volatility and will be subject to the risks of currency fluctuations and sudden economic or political developments. The securities markets of emerging countries have less government regulation and are subject to less extensive accounting and financial reporting requirements than the markets of more developed countries.

The **Case-Shiller Index** measures the change in prices of a group of homes in 20 major metropolitan areas in the US. It is not possible to invest directly in an unmanaged Index.

The **Bloomberg Barclays US Aggregate Bond Index** represents an unmanaged diversified portfolio of fixed-income securities, including US Treasuries, investment-grade corporate bonds, and mortgage-backed and asset-backed securities. The Index figures do not reflect any deduction for fees, expenses or taxes. It is not possible to invest directly in an unmanaged index.

The **Bloomberg Barclays Global Aggregate Index** provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the US Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and USD investment grade 144A securities.

The **Bloomberg Barclays US Treasury Index** includes publicly issued, US Treasury securities, are rated investment grade, and have \$250 million or more of outstanding face value. It is not possible to invest directly in an unmanaged index.

The **Bloomberg Barclays US Treasury Inflation Protected Securities (TIPS) Index** includes all publicly issued, US Treasury inflation-protected securities that have at least one year remaining to maturity, are rated investment grade, and have \$250 million or more of outstanding face value. It is not possible to invest directly in an unmanaged index.

The **Bloomberg Barclays US Corporate Investment Grade Index** includes publicly issued US corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered. It is not possible to invest directly in an unmanaged index.

The **J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM)** is the first comprehensive, global local Emerging Markets index, and consists of regularly traded, liquid fixed rate, domestic currency government bonds to which international investors can gain exposure. Variations of the index are available to allow investors to select the most appropriate benchmark for their objectives.

The **J.P. Morgan EMBI Global Diversified Index** is an unmanaged index of debt instruments of 31 emerging countries. The Index figures do not reflect any deduction for fees, expenses or taxes. It is not possible to invest directly in an unmanaged index.

The **J.P. Morgan Corporate Emerging Markets Bond Index (CEMBI)** tracks total returns of US dollar-denominated debt instruments issued by corporate entities in Emerging Markets countries. Two variations are available: CEMBI Broad and CEMBI. The CEMBI Broad is the most comprehensive corporate benchmark followed by the CEMBI, which consists of an investable universe of corporate bonds. Both indices are also available in Diversified versions.

The **Bloomberg Barclays US Corporate High Yield Bond Index** (formerly the Lehman Brothers US Corporate High Yield Bond Index), 2% Issuer Capped, covers the universe of US dollar denominated, non-convertible, fixed rate, non-investment grade debt. Index holdings must have at least one year to final maturity, at least \$150 million par amount outstanding, and be publicly issued with a rating of Ba1 or lower. The Index figures do not reflect any deduction for fees, expenses or taxes. It is not possible to invest directly in an unmanaged index.

The **S&P/LSTA Leveraged Loan Index (LLI)** is a daily total return index that uses LSTA/LPC Mark-to-Market Pricing to calculate market value change. On a real-time basis, the LLI tracks the current outstanding balance and spread over LIBOR for fully funded term loans. The facilities included in the LLI represent a broad cross section of leveraged loans syndicated in the United States, including dollar-denominated loans to overseas issuers. It is not possible to invest directly in an unmanaged index.

The **Bloomberg Barclays Aggregate Municipal Bond Index** (formerly the Lehman Brothers Aggregate Municipal Bond Index) is an unmanaged broad-based total return index composed of approximately 8,000 investment grade, fixed rate, and tax-exempt issues, with a remaining maturity of at least one year. The Index figures do not include any deduction for fees, expenses or taxes. It is not possible to invest directly in an unmanaged index.

The **Bloomberg Barclays Municipal High Yield Bond Index** is a component of the Municipal Bond Index. The Index is rules-based, market-value-weighted and includes non-investment grade tax-exempt bonds. The Index figures do not include any deduction for fees, expenses or taxes. It is not possible to invest directly in an unmanaged index.

The **S&P 500 Index** is the Standard & Poor's 500 Composite Index of 500 stocks, an unmanaged index of common stock prices. The Index figures do not reflect any deduction for fees, expenses or taxes. It is not possible to invest directly in an unmanaged index.

The **MSCI World Index** captures large and mid cap representation across 24 Developed Markets (DM) countries. With 1,606 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. It is not possible to invest directly in an unmanaged index.

The **MSCI Emerging Markets Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The MSCI Emerging Markets Index is calculated in US Dollars on a real time basis and disseminated every 60 seconds during market trading hours. It is not possible to invest directly in an unmanaged index.

The **HFRX Global Hedge Fund Index** is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted based on the distribution of assets in the hedge fund industry. The HFRX Hedge fund Index is constructed using robust filtering, monitoring and quantitative constituent selection process using the Hedge fund Research (HFR) database, an industry standard for hedge fund data. It is not possible to invest directly in an unmanaged index.

The **S&P US Preferred Stock Index** is an investable benchmark representing the US preferred stock market. Preferred stocks are a class of capital stock that pays dividends at a specified rate and has a preference over common stock in the payment of dividends and the liquidation of assets. Complete details of these guidelines are available on the Web site at [www.spindices.com](http://www.spindices.com).

The **Alerian MLP Index** is a composite of the 50 most prominent energy Master Limited Partnerships (MLPs). The index is calculated using a float-adjusted, capitalization-weighted methodology.

Is it not possible to invest directly in an unmanaged index.

## Glossary of Terms

**ABS** is an asset back security

**CDS** is a credit default swap.

**CMBS** is a collateralized mortgage backed security

**CDX** is a Credit default swap index.

**CLO** or collateralized loan obligation, refers to a form of securitization where payments made by the debt security are sourced from the underlying assets (pools) held in tranches.

**Correlation** is a statistical measure of how two securities move in relation to each other.

**Covered Bond** is a form of debt security, issued primarily by financial institutions, in which the securities are both backed by cash flows from public sector loans or mortgages. In addition, the security remains on the balance sheet of the issuer.

**Credit Sensitive** refers to those sectors which may have greater sensitivity to credit default risk.

**Directional** refers to a trading strategy in which one is either long given a positive view on the security or short given a negative view on the security.

**Market Value** refers to the price at which an asset would trade in the open market at a specified date.

**MBS** is a mortgage backed security

**Notional Value** refers to the face value or principal amount that an investor holds of a security. This value is not subject to market price and is used to calculate payments made on that asset.

**Pair Trade** is a trading strategy in which a long and a short trade are matched, creating a market neutral position.

**Periphery** is referring to non-core

**PMI** (Purchasing Managers Index), produced monthly by the Institute for Supply Management, reflects purchasing managers' acquisition of goods and services within the private sector, and often cited as a data point in estimating economic growth.

**QE** or quantitative easing, refers to a policy implemented by the Federal Reserve Bank in the United States. The term implies a method of monetary policy implemented by a central bank in order to stimulate the national economy by increasing the excess reserves managed by the bank and in so doing raise the prices of financial assets bought.

**Realized Volatility** refers to the standard deviation of a Fund's continuously compounded returns within a certain timeframe.

**Swaptions** Options on interest rate swaps.

**TRS** (Total Return Swap) is a form of derivative or an agreement between two parties wherein one party exchanges the total return of a financial asset for periodic cash flows.

**Volatility/Interest Rate Sensitive** refers to those sectors which may have greater sensitivity to interest rate risk

**Yield Curve** a curve on a graph in which the yield of fixed-interest securities is plotted against the length of time they have to run to maturity.

**Currency Abbreviations**

AUD	Australian dollar	CZK	Czech Republic koruna	ILS	Israeli new sheqel	NOK	Norwegian krone	SGD	Singapore dollar
BRL	Brazilian real	DKK	Danish krone	INR	Indian rupee	NZD	New Zealand dollar	TRY	Turkish lira
CAD	Canadian dollar	EUR	Euro	JPY	Japanese yen	PLN	Polish zloty	TWD	New Taiwan dollar
CHF	Swiss franc	GBP	British pound	KRW	Korean won	PHP	Philippine Peso	USD	US dollar
CLP	Chilean peso	HUF	Hungarian forint	MXN	Mexican peso	RUB	Russian ruble		
CNH	Chinese renminbi	IDR	Indonesian rupiah	MYR	Malaysian ringgit	SEK	Swedish krone		

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