Asset Management

Goldman Sachs
US Real Estate Balanced Portfolio

Investment Commentary for Q2 2016

I. Features of the Goldman Sachs US Real Estate Balanced Portfolio

Investment Objective:

The Goldman Sachs US Real Estate Balanced Portfolio's objective is to seek to benefit from exposure to expected improvement in US real estate markets through a diversified pool of investments in fixed income securities (primarily below investment grade) and equity and equity-like instruments related to real estate assets.

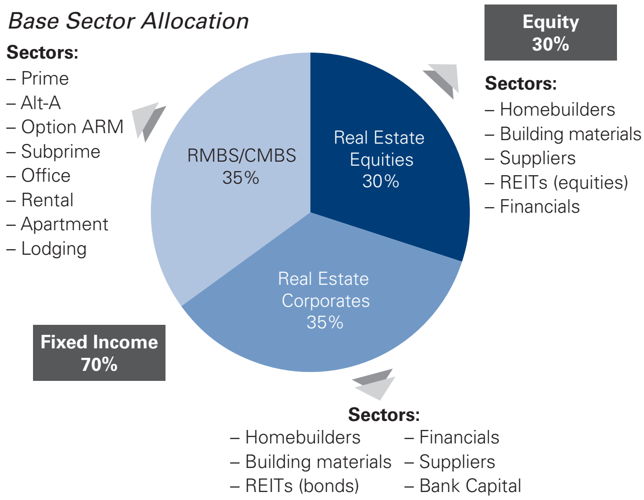
Real Estate Beta: potential to benefit from expected improvement in US real estate markets

Balanced Portfolio: investing in a diversified pool of real estate related securities in fixed income and equities

Dynamic Allocation: adjusting the overall fixed income and equity mix to reflect changes in market conditions

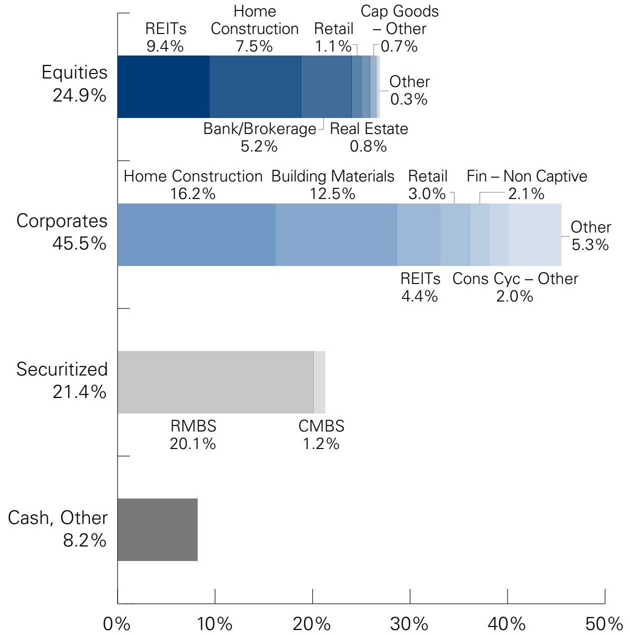
Return and Income: combining both return and income-oriented securities to capitalise on expected improvements in US real estate markets

Base Sector Allocation



II. Performance, Facts and Positioning

Sub-Sector Allocation



Numbers may not sum due to rounding.

Top-Level Summary	June 2016
Total net assets (USD million)	566
Number of holdings	152
Average rating (fixed income only)	BB-
Duration of portfolio (years)	2.07
Spread duration (years)	2.39
Portfolio yield	4.51%
Currency – base (acc)	USD
Inception date – base (acc)	02-Oct-12
Fund domicile	Luxembourg

Portfolio holdings and/or allocations shown above are as of the date indicated and may not be representative of future investments. The holdings and/or allocations shown may not represent all of the portfolio's investments. Future investments may or may not be profitable. There is no guarantee that these objectives will be met.

III. Performance Attribution

Performance: USD share class returns for 2016 Q2 were +2.4% following Q1 returns of -0.3% on a gross basis, while cumulative gross returns since inception now stand at 36%. The S&P 500 returned +2.5% (total return) over the period, while broad high yield markets returned +4.5% over the same timeframe. Corporate, Equity and Securitized securities all contributed positively over the quarter.

Equities: Equity holdings were positive for performance over the quarter (+48 basis points). Investments in REIT shares drove gains, as valuations improved with the rally in US interest rates during the period. Capital goods also contributed positively to performance.

Corporate bonds: Contribution to returns was 1.39% over the quarter. Interest rate movements contributed towards performance, with gains also impacted by mixed but generally positive spread movements. Most industries in which the Fund invested generated positive performance over the period, particularly home builders and building materials.

Securitized: Contribution to returns was 0.73% over the quarter. Delinquencies and severities on underlying loans continued to fall over the quarter- both positive for RMBS valuations. Returns on CMBS holdings were largely flat on the quarter.

Duration hedging: The duration hedge was a modest positive contributor to returns over the period (+5bps). At the end of Q2 2016, the overall interest rate duration of the Fund was 1.87 years, up from 1.51 at the end of Q1 2016.

IV. Portfolio Positioning

The Fund ended the quarter with an equity allocation of approximately 25%, an underweight vs. the base asset allocation of 30%. Within the 75% held in fixed income, the Investment Committee maintained the high yield allocation of 46%, in line with the end of the first quarter. Securitized assets increased to 21% from 17% at the end of Q1. Within corporate bond holdings, homebuilders (35.6%) and building materials (27.6%) remained the largest two sectors, with their allocations increasing somewhat over the quarter. The Securitized composition became tilted more heavily toward RMBS, ending the quarter at 94% RMBS and 6% CMBS, as we remain constructive on borrower fundamentals for residential properties.

The interest rate duration of the Fund extended from 1.51 years to 1.87 years at the end of the quarter.

V. Market Review

The second quarter of 2016 ended with rates near all-time lows. 10-year US Treasury yields closed at 1.47%, rallying ~30 basis points following the unanticipated Brexit outcome. US equity markets ended the quarter 1.9% higher despite several inter-quarter swings. Corporate bonds benefited from tighter credit spreads, and broad US high yield corporate indices returned +4.5% while similar investment grade indices returned +3.6%. Despite the uncertainty regarding the UK referendum, a potential slowdown in Chinese growth, and the upcoming election in the US, securities markets put in a relatively strong showing in the second quarter.

Central bank policy was also top of mind throughout the second quarter as investors awaited a potential rate hike from the Federal Reserve, but were met with further accommodative policies globally. Given global growth uncertainties, the Fed has taken an even more dovish position in recent months. As of the end of Q2, the market implied odds for a December hike were a mere 9%, down from 54% at the end of Q1. Moreover, the possibility of additional stimulus by the European Central Bank (ECB), as well as the Bank of Japan (BOJ), has driven global yields even lower, making US assets even more attractive on a relative basis. US consumers remain fairly upbeat on the current outlook, a reflection of improving economic conditions in the US Nearly all Michigan Consumer Sentiment Index surveys returned an index value of at least 90 over the quarter (April's value was just shy of 90), reinforcing the view that consumers are still reasonably optimistic despite these external headwinds.

Overall, real estate data during the quarter struck a generally positive tone, with residential real estate metrics continuing to show improvement. New single-family home sales printed an annualized 511,000 in May, down modestly YTD but up +8.7% year-over-year, while new housing starts printed an annualized 1.164 million in May, a +9.5% increase year-over-year. Note that the new housing starts continue to trend upwards from crisis lows. The pending home sales index for May is now 2.4% higher year-over-year. The NAHB Homebuilder Sentiment Index has remained notably above its baseline of 50 (in the high 50s or low 60s) over the course of the year. Home price appreciation (HPA) data are running around 5-6% year-over-year, and are on pace to show similar gains to both 2014 and 2015 levels. We expect that longer-term price trends will slowly return towards nominal growth of 3-4% (i.e., inflation +1-2%).

Source: GSAM, BAML, Bloomberg, Barclays, US Census Bureau.

[1] Return shown for GS US Real Estate Balanced Portofolio - Bass accumalation share class. Inception: 02 October 2012.

VI. Strategy and Outlook

We head into the third quarter with a cautious outlook on global growth given broader macroeconomic uncertainty as a result of the UK referendum. We believe that the impact on US real estate should be relatively muted but remain watchful of the implications for broader markets.

As the Fed was already operating in a cautious, wait-and-see mode pending more US economic data, the outcome of the referendum makes it even less likely that we'll see any policy moves prior to the US elections in November. At this point, our base case is one Fed move late in the year, with some risk to no action at all. Additionally, we expect to see an increase in volatility as we move closer toward US elections, as markets have historically experienced volatility when a president is leaving office after serving multiple terms. We expect global central bank policy to remain accommodative, with further stimulus expected from the Bank of England, and potentially from the ECB and BOJ as well. In this scenario, negative interest rates and global interest rate differentials should help to keep US interest rates low in the near-term.

We believe that US real estate represents a safe harbor within such turbulent global markets. Real estate prices have generally shown positive growth, even in the face of broader market volatility. There is a fundamental lack of supply in residential property, particularly in the single-family sector as construction has been insufficient to meet demand from ongoing household formation. This fundamental supply-demand mismatch, combined with strong positive demographic trends of wage growth and consumer spending, bode well for a structural improvement in construction conditions.

Consumer balance sheets are in good shape, the labor markets are healthy, and wages have started to move consistently higher.

From a markets perspective, valuations in US equities appear somewhat stretched given growing pressure on margins, potentially higher unit labor costs, and the impact of a stronger dollar (as a result of Brexit) on US manufacturers. As a result, the Fund is carrying 25% in equities, the lowest level since launch.

The UK referendum is adding to the deterioration of global macro conditions, and global growth is likely to be negatively impacted as a result. Global banks face further pressures from negative interest rates; political risks are increasing; the effectiveness of additional monetary stimulus is being called into question. In this environment, the Investment committee believes it's prudent to moderate overall risk in the Fund, and expects to be able to deploy capital at better valuations later in the year as a result.

VII. Real Estate Market Monitor

				Change			
Representative Real Estate Related Statistics		Latest Print	Latest Date	MoM	YTD	12 Month	3 year
Real Estate Indices, Px							
S&P Case Shiller 20 City Composite, NSA	2000=100	186.6	Apr-16	1.1%	2.3%	4.3%	22.6%
S&P Case Shiller National Composite, NSA	2000=100	178.7	Apr-16	1.0%	1.9%	3.9%	18.3%
FHFA US House Price Index, purchase-only, NSA	1991=100	235.8	Apr-16	1.0%	3.0%	5.9%	18.5%
CoreLogic, HPI, SFC	2000=100	179.7	May-16	1.3%	3.8%	5.9%	19.8%
Moody's/RCA CPPI Office-CBD	2000=100	251.1	Apr-16	-2.5%	-7.3%	-3.1%	42.5%
Activity Metrics							
Existing Home Sales, SAAR	millions	5.5	May-16	1.8%	1.5%	2.2%	7.6%
Pending Home Sales, SA	2001=100	110.8	May-16	-3.7%	1.9%	0.8%	3.1%
New Home Sales – single family, SAAR	thousands	522.0	Mar-16	-0.6%	-3.0%	4.4%	16.3%
New Housing Starts, SAAR	thousands	1,164.0	May-16	-0.3%	0.3%	-4.0%	26.5%
US Macro Statistics							
Real GDP, QoQ SAAR	–	1.1%	Mar-16	n/a	-0.3%	0.5%	-0.8%
Unemployment Rate	–	4.7%	May-16	-0.3%	-0.3%	-0.6%	-2.8%
Nonfarm Payrolls, MoM Chg. SA	thousands	38.0	May-16	-85	-233	-190	-180
Per Capital Disposable Income, SAAR	US$	42,900.0	May-16	0.2%	1.5%	2.9%	9.9%
Real Estate Related Securities, Px							
S&P Homebuilders Index, Px	US$	3,381.9	Jun-16	-1.6%	-1.6%	-8.3%	12.6%
S&P Financial Index, Px	US$	308.4	Jun-16	-3.4%	-7.5%	-6.2%	16.9%
US HiYld Homebuilders/Real Estate, Px return Idx	US$	110.0	Jun-16	-0.3%	0.6%	-1.5%	-1.1%
ABX.HE.07-1 AAA, Px	US$	75.3	Jun-16	0.0%	-2.2%	-2.8%	41.3%
CMBX.6 (2013) AAA, Px	US$	98.4	Jun-16	0.2%	0.7%	0.4%	4.3%

NSA = non-seasonally adjusted. SAAR = seasonally adjusted annual rate. SA = seasonally adjusted. QoQ = quarter on quarter. Px = price. GDP = gross domestic product. All performance quoted in USD unless specified otherwise. **Past performance does not guarantee future results, which may vary.**

Souce: Bloomberg, JP Morgan, Moody's and Core logic.
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