Goldman Sachs
Asset Management

London Borough of Tower Hamlets

GS Strategic Absolute Return Bond II Portfolio

Portfolio Review

GSAM Global Fixed Income and Liquidity Solutions

April 2018

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Goldman Sachs
Asset Management

I. Executive Summary

Executive Summary

As of 30-Mar-2018

Goldman Sachs Asset Management

Account Summary

Account Name	GS Strategic Absolute Return Bond II Portfolio – London Borough of Tower Hamlets
Assets	GBP 77mn
Benchmark	3 Month GBP LIBOR
Target Tracking Error	500 – 600 bps
Target Excess Return	400-500 bps
Performance Inception Date	04-Apr-2016

Performance Summary

	Portfolio Net (%)	Target (Benchmark+4%) (%)	Difference Net (bps)
1Q 2018	(0.21)	1.13	(133)
Last 1 Year	(1.68)	4.41	(609)
Since Inception (Ann)*	1.87	4.43	(256)

Portfolio Summary

	Portfolio	Benchmark	Difference
Number of Countries	44	0	44
Yield to Maturity (%)	4.86	2.01	2.86
Yield to Worst (%)	4.76	2.01	2.76
Option Adjusted Duration (yrs)	(3.18)	0.25	(3.43)
OA Spread Duration (yrs)	(3.68)	0.25	(3.93)
Maturity (Bonds, yrs)	6.39	0.00	6.39
Average Life (Bonds, yrs)	2.54	0.00	2.54
Libor OAS (bps)	31	0	31

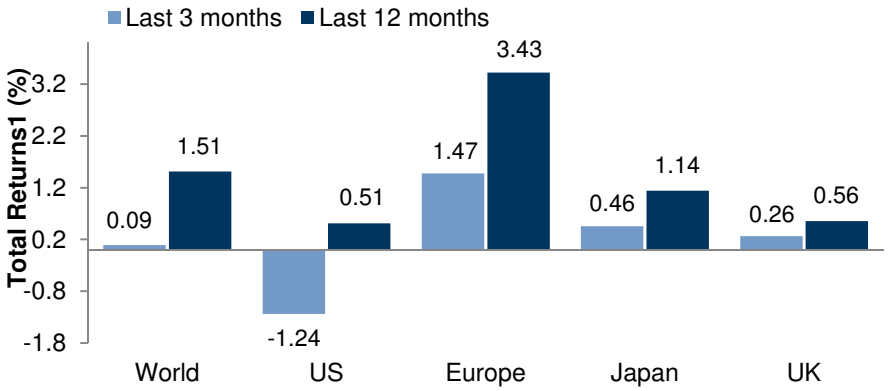
As of 30-Mar-2018.*Performance inception date: 04-Apr-2016. **Past performance does not guarantee future results, which may vary.** Targets are subject to change and are current as of the date of this presentation. Targets are objectives and do not provide any assurance as to future results. Please see additional disclosures. The returns are gross and do not reflect the deduction of investment in advisory fees, which will reduce returns. 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.

II. Market Review

Market Review

Goldman Sachs Asset Management

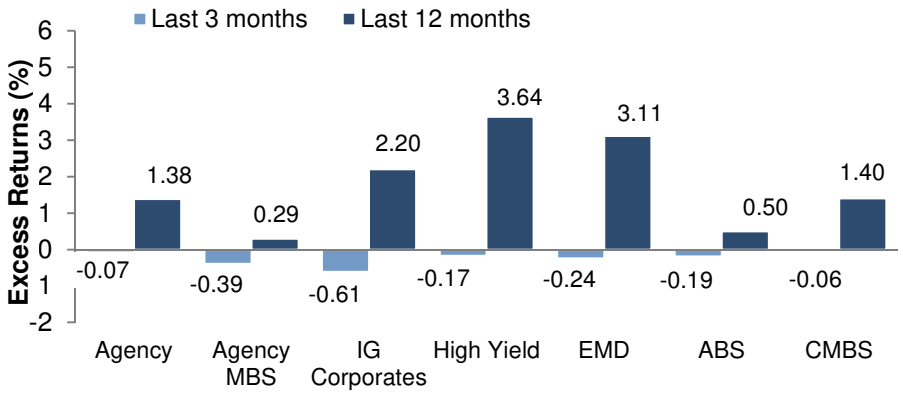
Global Government Markets – Local Currency



Source: Bloomberg

- With the exception of US, global government bonds posted positive returns during the first quarter of 2018. The Federal Reserve (Fed) delivered the first rate hike of 2018 at its March meeting and the dot plot continues to point to three rate hikes this year. That said, policymakers acknowledged that the "economic outlook has strengthened in recent months". We remain bearish US rates and continue to see scope for four rate hikes this year.
- Unlike their US counterpart, the Bank of England (BoE) and ECB kept interest rates unchanged at their March meetings. ECB President Mario Draghi emphasized that although confidence in the growth outlook has increased, the Governing Council maintains a subdued outlook for underlying inflation. We expect the ECB to taper its QE program in the final quarter of this year, and although we see scope for a rate hike in mid-2019, risks are skewed to a later rate move.

Sector[3] Performance (in USD) – Excess Returns[2] Over Government Bonds



Source: Barclays, Bloomberg

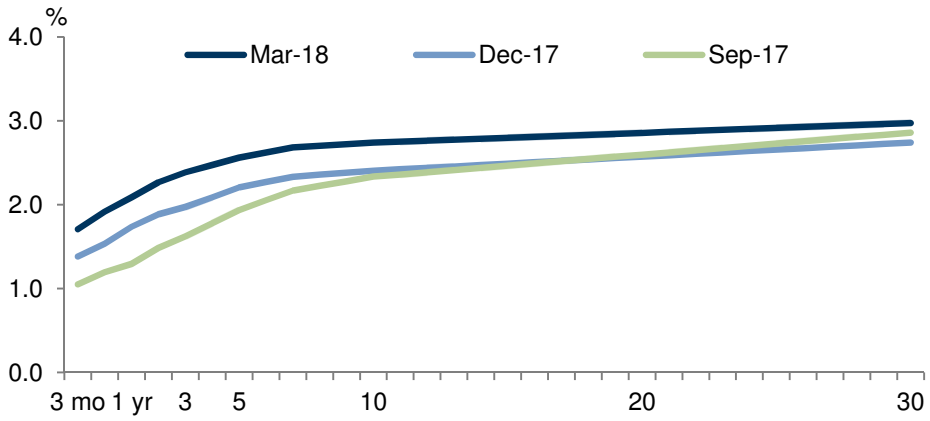
- In the first quarter of 2018, returns amongst the listed spread sectors were broadly negative as elevated volatility during the period tempered performance.
- Investment Grade corporate credit underperformed, largely due to technical backdrop resulting from a combination of higher volatility, heavy supply and front-end funding pressures.
- Agency MBS underperformed due to higher interest rate volatility and increased demand for US Treasuries amid concerns around trade tensions. Muted bank and Federal Reserve demand for agency MBS also contributed to sector underperformance

[1] Total returns are calculated from the respective regions based off the JP Morgan Global Government Bond Index.
[2] This is the excess return over swaps, and is based off GSAM's non-agency MBS factor return. All securities are denominated in US$.
[3] Agency: Bloomberg Barclays Global Aggregate: Government Related Agencies; MBS: Bloomberg Barclays US MBS; IG Corporates: Bloomberg Barclays Global Aggregate Corporates; High Yield: Bloomberg Barclays US Corporate High Yield, EMD: Bloomberg Barclays EM (US$) Aggregate. **Past performance does not guarantee future results, which may vary.** As of Mar 30,2018

Market Review

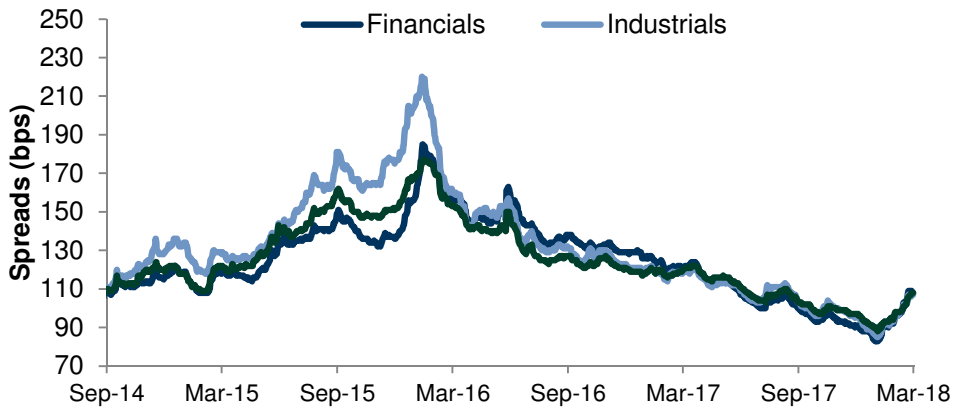
Goldman Sachs Asset Management

US Treasury Yields (%)



Source: Bloomberg

Global Investment Grade Corporate Spreads



Source: Bloomberg

- The US yield curve flattened further over the first quarter of 2018, as the spread between the 2-year and 30-year nodes of the curve decreased by 15bps to close at 71bps. 30-year yields increased by 23bps, whilst 2-year yields increased by 38bps.
- The Federal Open Market Committee (FOMC) delivered the first rate hike of 2018 at its meeting in March and the dot plot continues to point to three rate hikes this year. US core inflation rose 2.2% year-over-year (YoY) in February from 2.1%, while core CPI remained stable at 1.8% YoY which was broadly in line with market expectations.

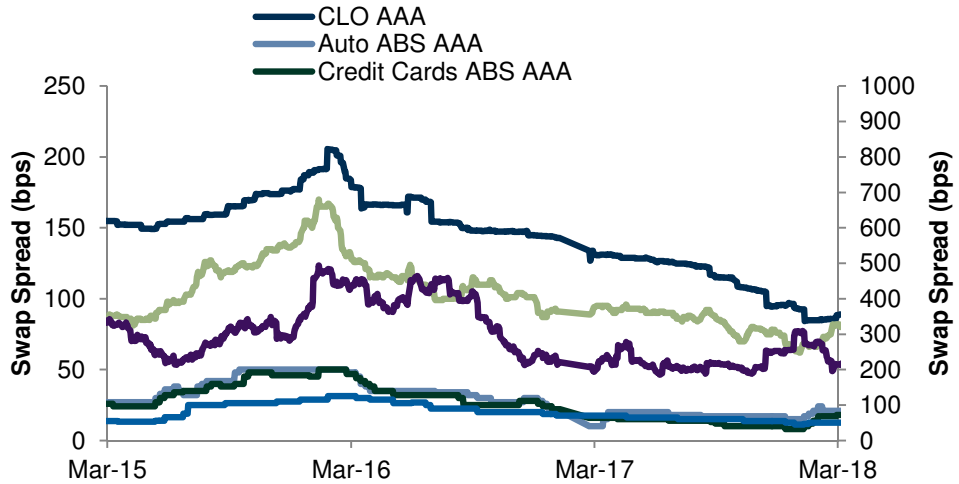
- Global investment grade corporates weakened in the first quarter of the year, as spreads on the Bloomberg Barclays Global Aggregate Corporate index widened by 13bps to 107bps over sovereigns. This technical weakness resulted from a combination of higher volatility, heavy supply and front-end funding pressures. In contrast to the previous quarter, Global Financials underperformed, widening by 17bps, whilst Global Industrials ad Utilities both widened by 11bps. Regionally, the US underperformed, with spreads widening by 16bps to 109bps over Treasuries. Euro corporates outperformed, widening by 9bps to 95bps over Gilts.
- Q1 2018 new issuance was significantly higher in both the US and Europe compared to the previous quarter, with totals amounting to $394bn and €153bn, respectively. Primary market activity was dominated by Industrials in the US and Financials in Europe.

As of Mar 30, 2018. **Past performance does not guarantee future results, which may vary.**

Market Review

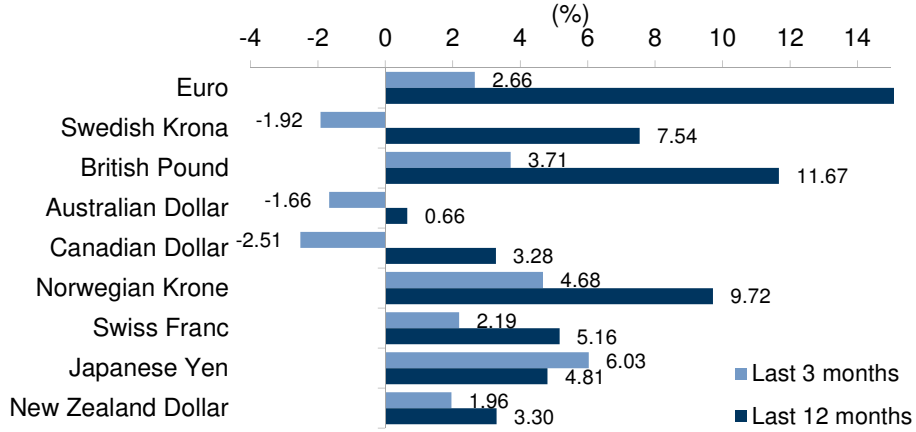
Goldman Sachs Asset Management

Securitised Credit



Source: JP Morgan, GSAM

Major Currency Movements vs. USD (%)



Source: Bloomberg

- Non-Agency RMBS has been one of the best performing spread sectors in 2017 and has continued its positive performance over Q1 2018 as prepayment rates on seasoned non-agency MBS collateral have generally increased, particularly for option-ARM collateral, as home prices continue to increase.
- CLO spreads have tightened over the past quarter driven by historical low default rates of the underlying high yield loans.
- FFELP ABS spreads have continued to tighten due to continued investor confidence whereas spreads for other securitized products like Auto and Credit Card ABS along with CMBS have widened over the quarter.

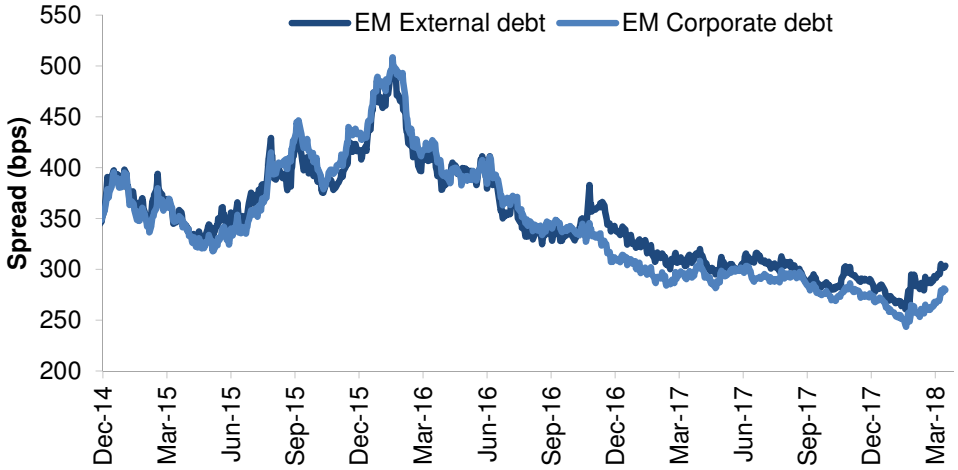
- The Japanese yen was the best performing G10 currency over the quarter, appreciating 6.0%. The currency performed strongly as market volatility generally increased and tensions over the potential impact of trade wars on global growth grew as investors sought save haven currencies.
- The Canadian dollar was the weakest performing G10 currency over the quarter, depreciating 2.5%. The Bank of Canada linked future interest rate hikes more explicitly with trade which is currently under pressure due to the renegotiation of NFTA trade deal with the US. This caused market expectations of future interest rates to be pushed further out causing the currency to depreciate.

Source: JP Morgan, GSAM, Bloomberg. CLO AAA : CLO Post AAA Portfolio discount margin; Credit Card ABS AAA : Credit Cards Fixed AAA – 3 Year spread to swap; Non-Agency RMBS AAA : ABX. HE. 07-1. AAA Cashflow spread (base case); Auto ABS AAA : Auto (Prime) Fixed AAA – 3 Year Spread to Swap; CMBS AAA : New issue CMBS 10 year on the run AAA Spread to Swap; Student Loan (FFELP) ABS AAA : Student Loans (FFELP) AAA – 5 year spread to Libor. As of Mar 30, 2018. **Past performance does not guarantee future results, which may vary.**

Market Review

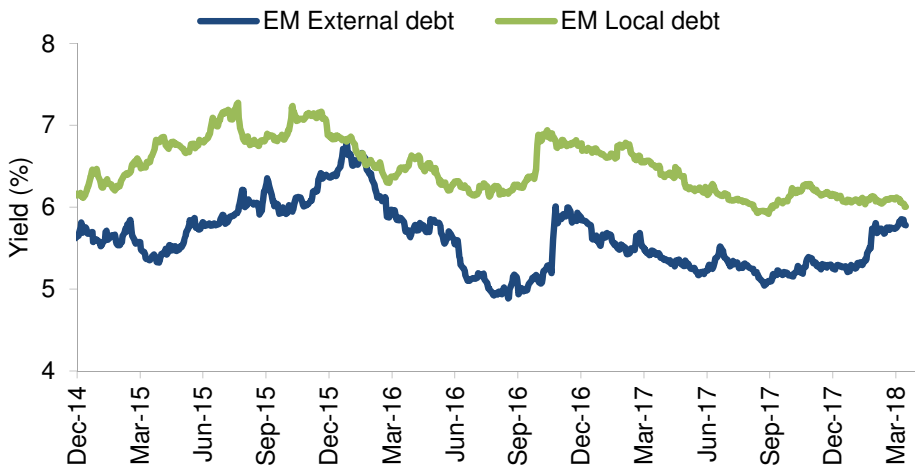
Goldman Sachs Asset Management

External Emerging Market Debt Spreads



Source: Bloomberg

Local and External Emerging Market Debt Yields



Source: Bloomberg

- Both EM external and EM Corporate spreads widened over the quarter by 15bps and 11bps, respectively. Spreads on EM external debt ended at 324bps, while EM corporate spreads were 281bps at the end of the quarter. EM external debt returned -1.7% during the quarter while EM corporate debt returned -1.1%.
- Flows into the asset class remained healthy during the first two months, but faltered slightly in March driven by trade war concerns. A notable rating upgrade over the quarter was Russia, which regained an investment grade rating.
- EM local debt posted a strong performance over the quarter, generating 4.42% total return, comprising of 2.84% currency appreciation and 1.58% from local rates. Yields ended the quarter 13bps lower at 6.01%, while EM external debt yields ended the quarter 50bps higher at 5.76%.
- On a quarterly total return basis, South Africa (13.29%), Mexico (10.88%) and Colombia (8.75%) were the strongest performers in the JP Morgan GBI-EM Index, while Philippines (-4.70%), Turkey (-4.58%) and Argentina (-4.50%) lagged other index constituents. South African assets rallied over the quarter as Cyril Ramaphosa took power after former president Jacob Zuma resigned under African National Congress's order.

EM External represented by the JPM EMBI Global Diversified. EM Local represented by the JPM GBI-EM Global Diversified. EM Corporate represented by JPM CEMBI Broad Diversified. Spreads quoted are over treasuries. **Past performance does not guarantee future results, which may vary.**
As of Mar 30, 2018.

III. Performance and Attribution

Gross Cumulative Excess Returns

GS Strategic Absolute Return Bond II- IO Acc (GBP hedged)

Goldman Sachs Asset Management

	2008[2]	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 YTD
Gross Excess Return (bps)	-685	1,358	367	-413	1,139	824	-170	13	183	-22	-6

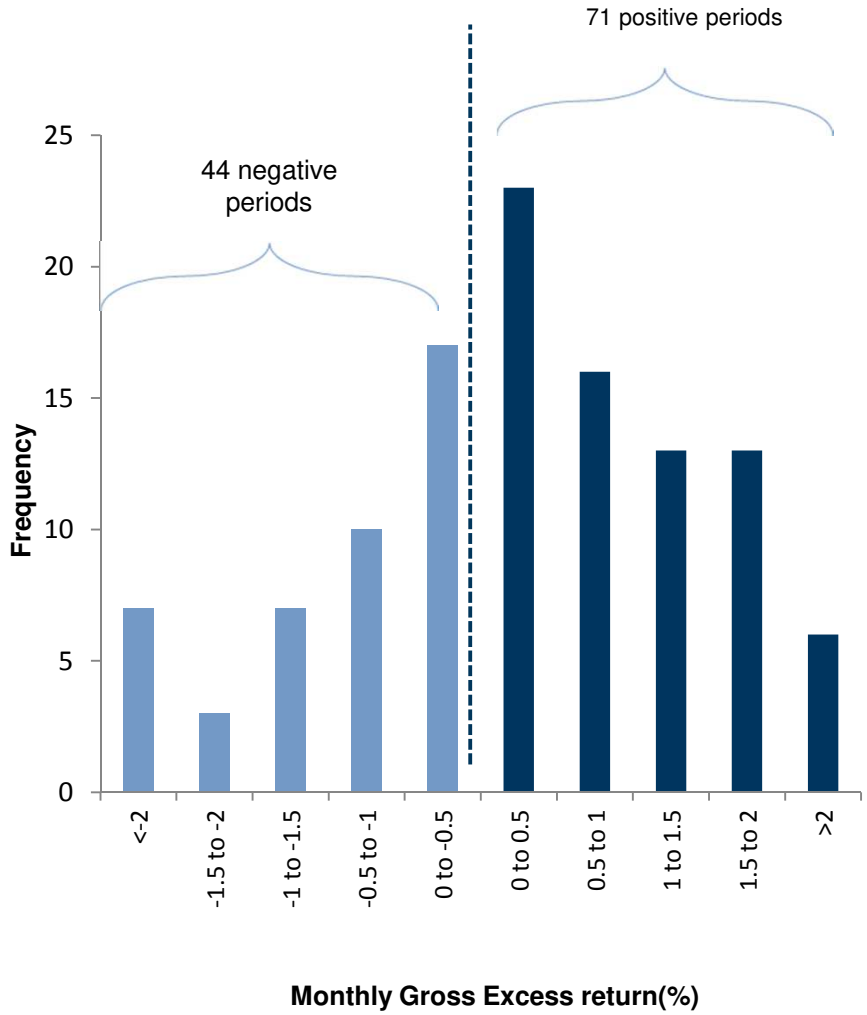
Source: GSAM. As of 30-Mar-18. Benchmark : 3 Month LIBOR (GBP). Performance Inception date : 12-Sep-2008. **Past performance does not guarantee future results, which may vary**. [1]Cumulative gross excess returns generated by the portfolio over the benchmark since inception of the share class. [2]12-Sep-08 to 31-Dec-08.. The returns are gross and do not reflect the deduction of investment advisory fees, which will reduce returns.

Performance Summary

GS Strategic Absolute Return Bond II- IO Acc (GBP hedged)

Goldman Sachs Asset Management

As of March 31, 2018	(%) Portfolio (Gross)	Benchmark[1]	Difference[2] (Gross) (bps)
Monthly			
Dec-17	0.49	0.04	44
Jan-18	1.21	0.04	117
Feb-18	-0.56	0.04	-60
Mar-18	-0.57	0.05	-63
Quarterly			
3Q17	-0.68	0.07	-76
4Q17	0.00	0.12	-12
1Q18	0.08	0.14	-6
Yearly			
2018 YTD	0.08	0.14	-6
2017	0.14	0.36	-22
Trailing period			
Last 1 Year	-0.54	0.41	-95
Last 6 Months	0.08	0.26	-18
Last 3 Months	0.08	0.14	-6
Since Inception[3]			
Annualised Return	3.32	0.81	251
Standard Deviation	4.30	0.22	
Tracking Error[4]			436
Information Ratio[5]			0.58



1 Benchmark: 3-Month GBP LIBOR Benchmark.
2 Gross difference is defined as the gross portfolio return minus benchmark return.
3 Performance inception date : 12-Sep-2008
4 Tracking Error is the annualised standard deviation of monthly excess returns.
5 Information Ratio is the annualised excess return divided by the annualised tracking error.

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

London Borough of Tower Hamlets Performance

GS Strategic Absolute Return Bond II Portfolio (I Flat Acc. GBP Hedged Share Class)

Goldman Sachs Asset Management

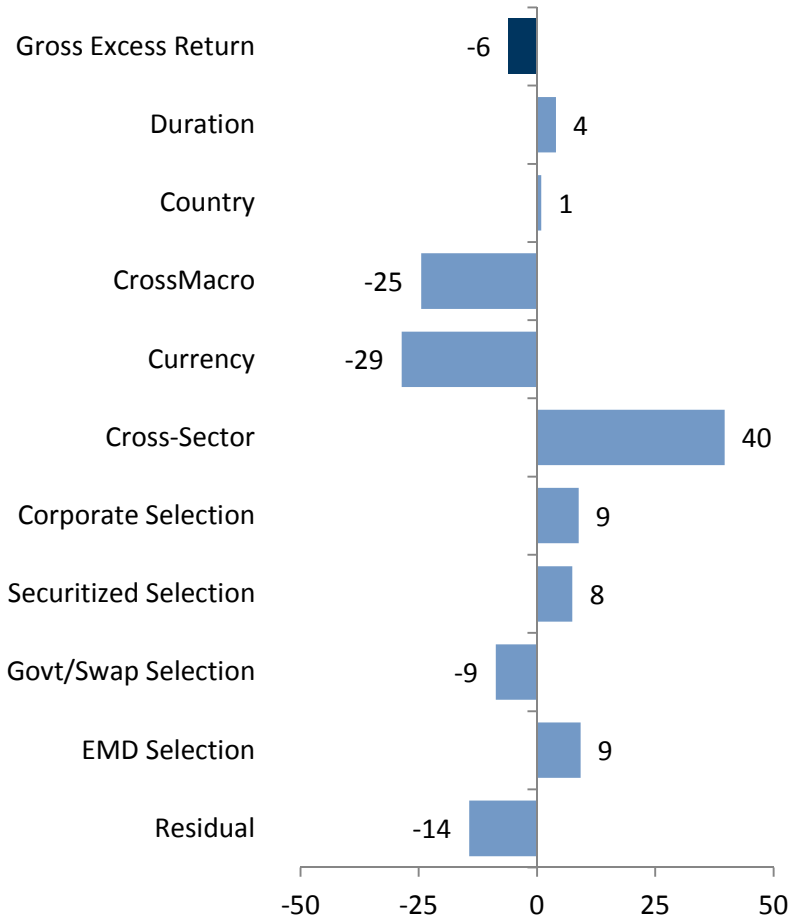
As Of March 31, 2018	(%)				(bps)		
	Portfolio (Gross)	Portfolio (Net)	Benchmark[1]	Target (Benchmark +4%)	Difference[2] (Gross)	Difference[2] (Net)	Difference vs Target (Net)
Trailing Periods							
Last 1 Year	-0.54	-1.68	0.41	4.41	-95	-209	-609
Last 6 Months	0.08	-0.50	0.26	2.24	-18	-76	-274
Last 3 Months	0.08	-0.21	0.14	1.13	-6	-35	-133
Quarters							
3Q17	-0.68	-0.97	0.07	1.06	-76	-105	-203
4Q17	0.00	-0.29	0.12	1.11	-12	-41	-139
1Q18	0.08	-0.21	0.14	1.13	-6	-35	-133
Months							
Nov-17	-0.11	-0.20	0.04	0.37	-15	-24	-57
Dec-17	0.49	0.39	0.04	0.37	44	35	2
Jan-18	1.21	1.12	0.04	0.37	117	107	74
Feb-18	-0.56	-0.64	0.04	0.37	-60	-68	-101
Mar-18	-0.57	-0.67	0.05	0.38	-62	-73	-106
Since Inception[3]							
Annualised Return	2.02	1.87	0.43	4.43	160	144	-256

[1] Benchmark: 3-Month LIBOR (GBP) Benchmark.
[2] Gross difference is defined as the gross portfolio return minus benchmark return.
[3] Client performance inception date: 04-Apr-2016.
Past performance does not guarantee future results, which may vary.

Performance Attribution

Q1 2018

Goldman Sachs Asset Management



Primary Drivers of Performance

- The portfolio underperformed by -6bps during the period, driven by the currency and cross-macro strategies whilst the cross sector and emerging market debt selection strategies contributed.
- Currency strategy was the biggest detractor from performance. Our long Swedish krona vs Euro position led to underperformance. A weaker-than-expected Swedish CPI print and a dovish Riksbank minutes prompted a rally in front-end rates and a sell off in the Swedish krona. In addition, our long USDJPY detracted as the exchange rate decoupled from interest rate differentials due to short term technical factors such as increased hedge ratios by life insurers and seasonal slowdown in outflows from Japan.
- Within Cross macro strategy, our long US rates vs long USDJPY trade was the most significant detractor. The exchange rate decoupled from interest rate differentials, combined with speculation that Bank of Japan (BoJ) will shift away from its ultra-accommodative monetary policy led to losses in this trade.
- Our Cross-sector strategy however, contributed to performance over the period. This was predominantly due to our Puerto Rico sales tax bonds within municipals as Puerto Rico's revised fiscal plan that will use additional funds from the US Federal budget to transform the fiscal deficit was positive for the bonds.
- Our EMD selection strategy also contributed to performance, mostly driven by the outperformance of Petroleos de Venezuela, S. A. (PDVSA) bonds over the quarter.

Note: Allocations may not sum to total due to rounding. Residual/Other: The difference between the fixed income proprietary risk and attribution model and the official GSAM performance system may be due to varying pricing, valuation, and data sources, as well as ad hoc custodian and accounting reconciliations. Benchmark: 3 Month GBP LIBOR. **Past performance does not guarantee future results, which may vary.** 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. The returns presented herein are gross and do not reflect the deduction of investment advisory fees, which will reduce returns. As of Mar 30, 2018 . Gross excess return is gross portfolio return minus benchmark return.

IV. Portfolio Positioning

GS Strategic Absolute Return Bond II Portfolio

Current Positioning and Opportunities - Details (Macro)

Goldman Sachs Asset Management

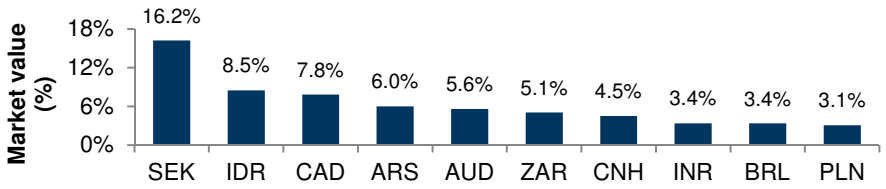
Interest Rate Duration

Total Portfolio Interest Rate Duration[1] :	-3.94 years
Active Duration:	-3.21 years
Country:	-0.24 years
Other[2] :	-0.49 years

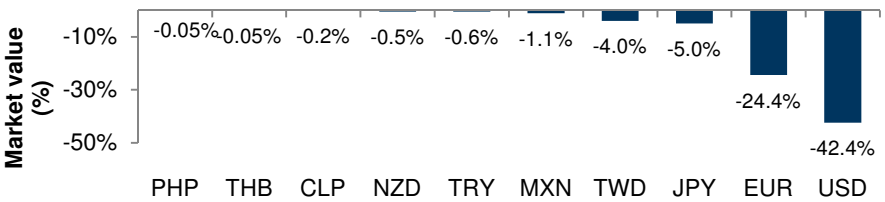
Active Duration Positioning

Active Duration:	-3.21 years
US: -2.91 years	UK: --
Europe: --	Sweden: -0.30 years

Top Net Currency Exposure



Bottom Net Currency Exposure



Country Strategy Positioning

Country Strategy:	-0.24 years
US: 0.63 years	Canada: 0.97 years
UK: -1.38 years	Europe: 1.96 years
Sweden: -1.50 years	Other: -0.92 years

Key Cross Macro positions

Relative Financial Conditions:

Overly Restrictive	Too Accommodative	Expression
Europe	Sweden	Long EUR vs Short SEK Rates, Short EURSEK
Taiwan	US	Short UST 5y & long USDTWD
Europe	Poland	Long EUR vs Short PLN Rates, Short EURPLN

Correlated Asset Relative Value (Rates vs FX):

Other	Long EM currencies vs Short IG Credit
FX vs Rates	Long Canada Rates vs Short UK rates vs short CADGBP
FX vs Rates	Long South Korea Rates vs Short USDJPY

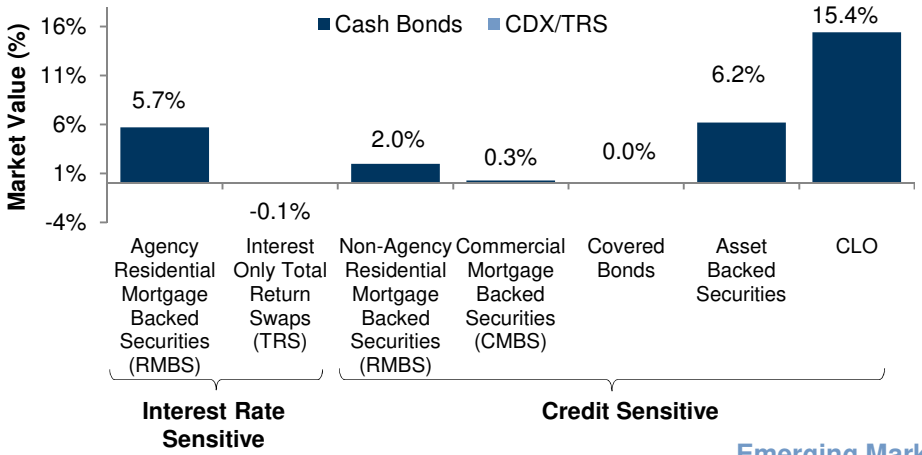
Source: GSAM. Data as of March 30, 2018 and subject to change. Any mention of an investment decision is intended only to illustrate our investment approach and/or strategy, and is not indicative of the performance of our strategy as a whole. It should not be assumed that any investment decisions shown will prove to be profitable, or that any investment decisions made in the future will be profitable or will equal the performance of the investments discussed herein. A complete list of past recommendations is available upon request. Please see additional disclosures. **Past performance does not guarantee future results, which may vary.** [1] Interest Rate Duration is a modified measure of Total Average Duration that has been estimated by GSAM. This modified measure seeks to take account of the different behaviours 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. This refers to the duration adjusted for volatility and not raw duration. [2] Others comprises of EMD, Cross Sector, Cross Macro and Gov./Swaps strategies. 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.

GS Strategic Absolute Return Bond II Portfolio

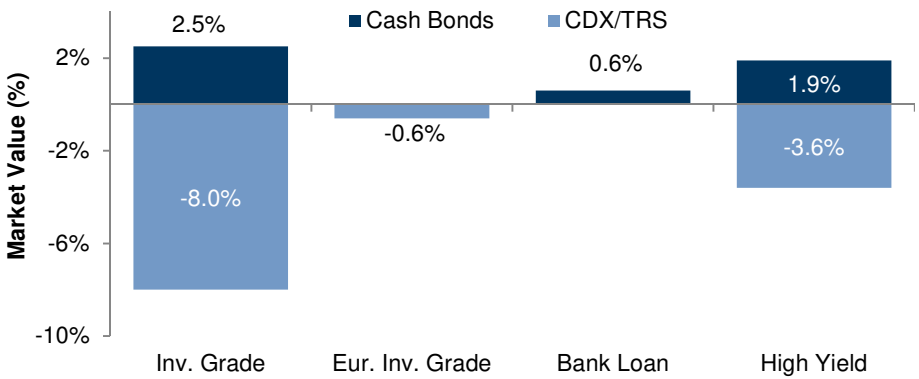
Current Positioning and Opportunities - Details (Sector)

Goldman Sachs Asset Management

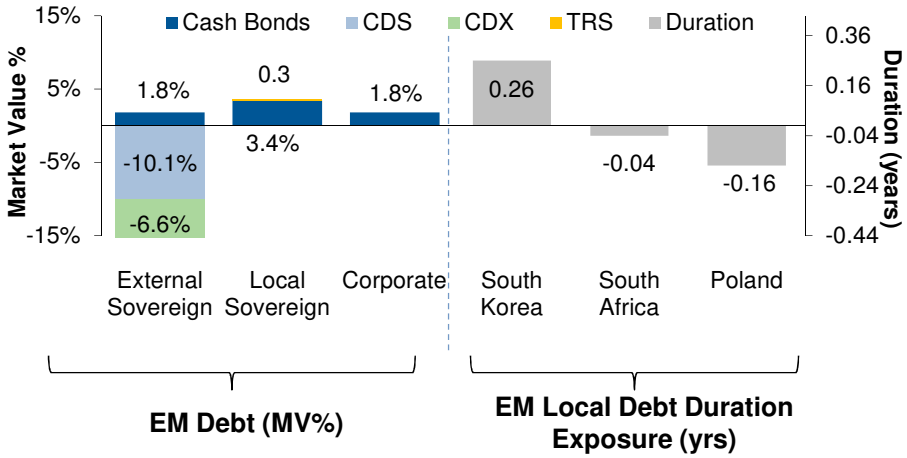
Securitized (29.5% by MV)



Corporate Credit (-7.2% by MV)



Emerging Markets Debt (-9.5%)



Source: GSAM. Data as of March 30, 2018 and subject to change. Any mention of an investment decision is intended only to illustrate our investment approach and/or strategy, and is not indicative of the performance of our strategy as a whole. It should not be assumed that any investment decisions shown will prove to be profitable, or that any investment decisions made in the future will be profitable or will equal the performance of the investments discussed herein. A complete list of past recommendations is available upon request. Please see additional disclosures.. **Past performance does not guarantee future results, which may vary.** 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.

Risks

GS Strategic Absolute Return Bond II Portfolio

Goldman Sachs Asset Management

- **Market risk** - the value of assets in the Portfolio is typically dictated by a number of factors, including the confidence levels of the market in which they are traded.
- **Operational risk** - material losses to the Portfolio may arise as a result of human error, system and/or process failures, inadequate procedures or controls.
- **Liquidity risk** - the Portfolio may not always find another party willing to purchase an asset that the Portfolio wants to sell which could impact the Portfolio's ability to meet redemption requests on demand.
- **Exchange rate risk** - changes in exchange rates may reduce or increase the returns an investor might expect to receive independent of the performance of such assets. If applicable, investment techniques used to attempt to reduce the risk of currency movements (hedging), may not be effective. Hedging also involves additional risks associated with derivatives.
- **Custodian risk** - insolvency, breaches of duty of care or misconduct of a custodian or sub-custodian responsible for the safekeeping of the Portfolio's assets can result in loss to the Portfolio.
- **Contingent Convertible ("Coco") Bond Risk:** Investment in this particular type of bond may result in material losses to the Portfolio based on certain trigger events. The existence of these trigger events creates a different type of risk from traditional bonds and may more likely result in a partial or total loss of value or alternatively they may be converted into shares of the issuing company which may also have suffered a loss in value. Such trigger events may include a reduction in the issuers' capital ratio, determination by a regulator or the injection of capital by a national authority. Investors should be aware that in the event of a financial crisis that action by regulators or the companies themselves may cause concentrations of these trigger events across the Portfolio.
- **Interest rate risk** - when interest rates rise, bond prices fall, reflecting the ability of investors to obtain a more attractive rate of interest on their money elsewhere. Bond prices are therefore subject to movements in interest rates which may move for a number of reasons, political as well as economic.
- **Credit risk** - The failure of a counterparty or an issuer of a financial asset held within the Portfolio to meet its payment obligations will have a negative impact on the Portfolio.
- **Derivatives risk** - certain derivatives may result in losses greater than the amount originally invested.
- **Counterparty risk** - a party that the Portfolio transacts with may fail to meet its obligations which could cause losses.
- **Emerging markets risk** - emerging markets are likely to bear higher risk due to lower liquidity and possible lack of adequate financial, legal, social, political and economic structures, protection and stability as well as uncertain tax positions.
- **High yield risk** - high-yield instruments, meaning investments which pay a high amount of income generally involve greater credit risk and sensitivity to economic developments, giving rise to greater price movement than lower yielding instruments.
- **Leverage risk -** the Portfolio may operate with a significant amount of leverage. Leverage occurs when the economic exposure created by the use of derivatives is greater than the amount invested. A leveraged Portfolio may result in large fluctuations in the value of the Portfolio and therefore entails a high degree of risk including the risk that losses may be substantial.

For full description of risks please refer to the Prospectus.

V. Macro Outlook

Summary

Key Views

Goldman Sachs Asset Management

Growth: Global expansion continues

- Growth moderated over the first quarter but remains expansionary
- Easy financial conditions still provide a positive growth impulse
- Fiscal expansion will elongate the US economic and credit cycles
- EM-ex China is a growth bright spot and moderation in China due to deleveraging is encouraging

Inflation: Gradual normalisation is our base case

- Inflation is trending toward central bank targets, and upside surprises could be a source of volatility
- Labor market tightness and capacity constraints will support US wage growth and inflation
- Euro area inflation is subdued and our forecasts remain below consensus and the ECB

Policy: Steady monetary tightening

- Fed – we see scope for 3 further Fed rate hikes this year
- ECB – tapered purchases from Sep-18 with QE ending this year
- Elsewhere – BoJ on hold, modest tightening in other developed markets

Investment Views

- Bearish US rates, bullish European rates on a relative value basis
- Bullish EM currencies, neutral to underweight US dollar
- Cautiously optimistic on US corporate credit

Source: GSAM. As of March 21, 2018. The economic and market forecasts presented herein are for informational purposes as of the date of this presentation. There can be no assurance that the forecasts will be achieved. Please see additional disclosures at the end of this presentation.

Growth: Activity has moderated but remains expansionary

DM activity has fallen below above-trend levels but remains expansionary.

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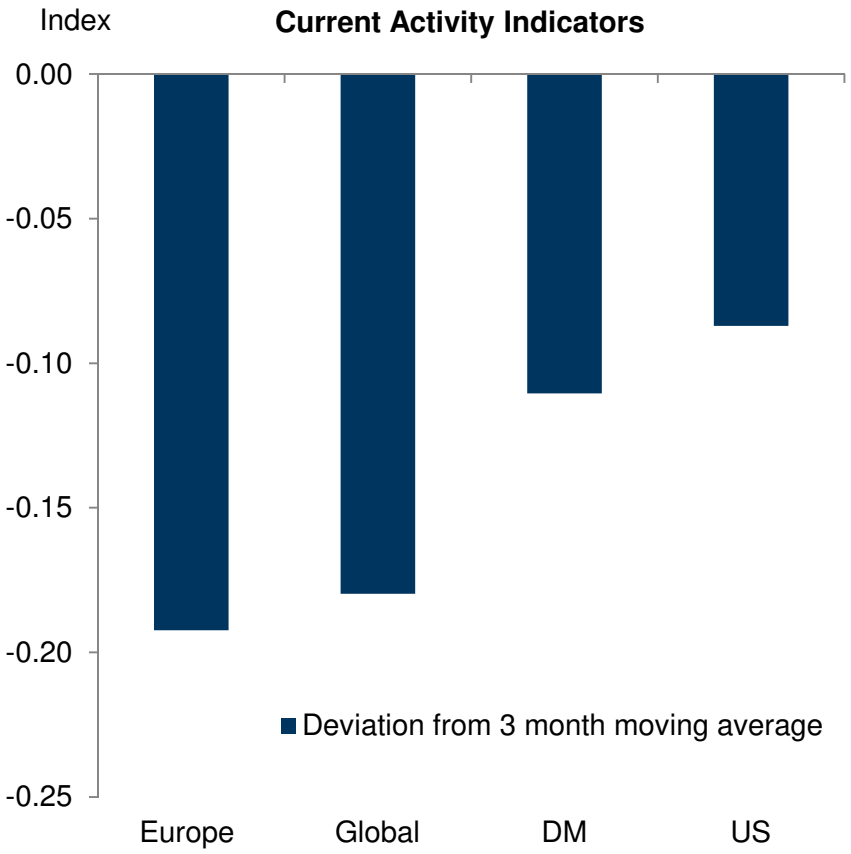
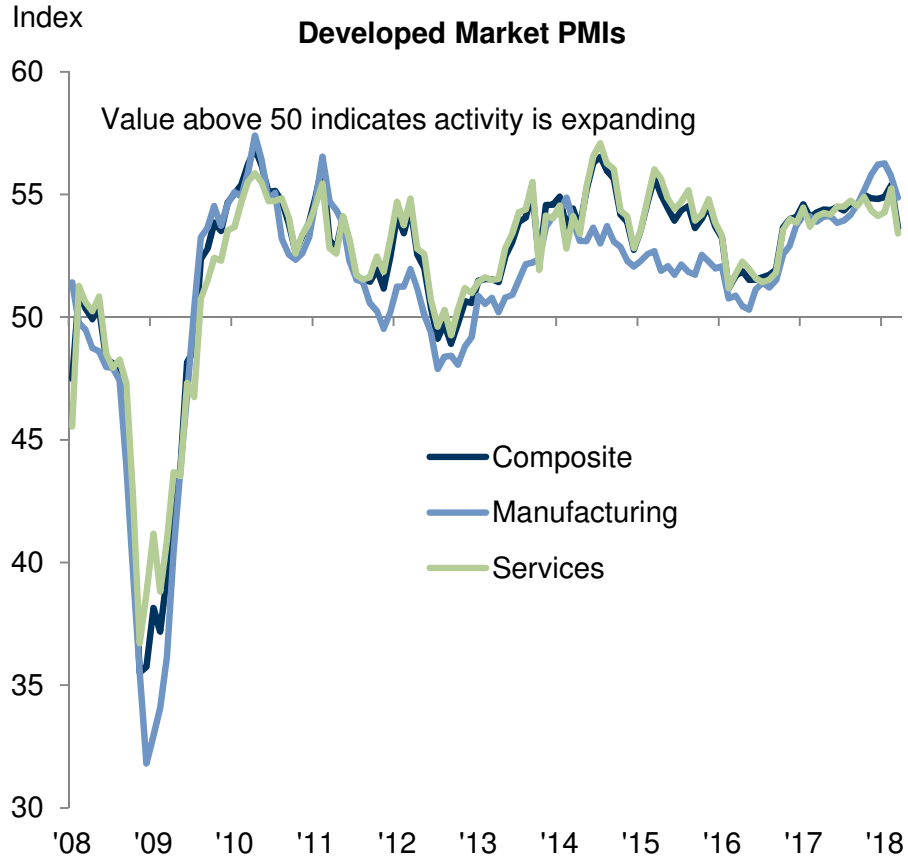
DM CAIs fall below recent elevated levels…



Source: GSAM. As of April 2018. Current activity indicators (CAI) provide us with a timely read of economic activity and are based on data which is released ahead of GDP figures and likely to be highly correlated with economic activity.

…but PMIs remain in expansionary territory



Source: Macrobond. As of March 2018.

Growth: Easy financial conditions continue to support growth

Growth is benefiting from accommodative financial conditions – tightening from recent market volatility was modest relative to easing seen since 2016.

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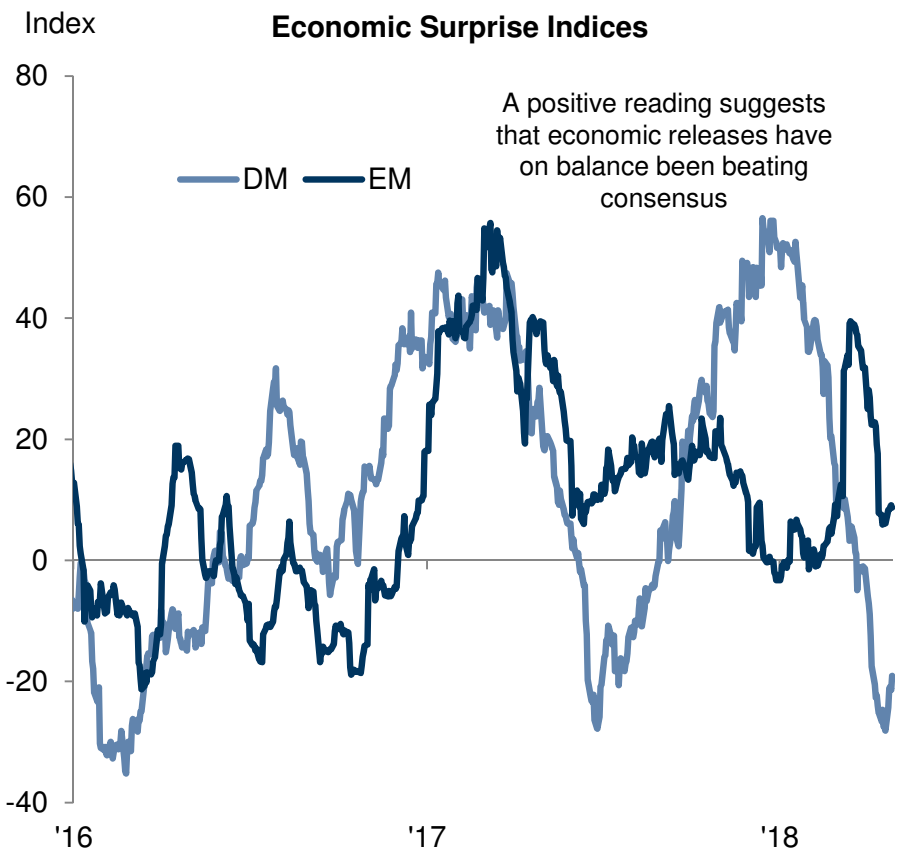
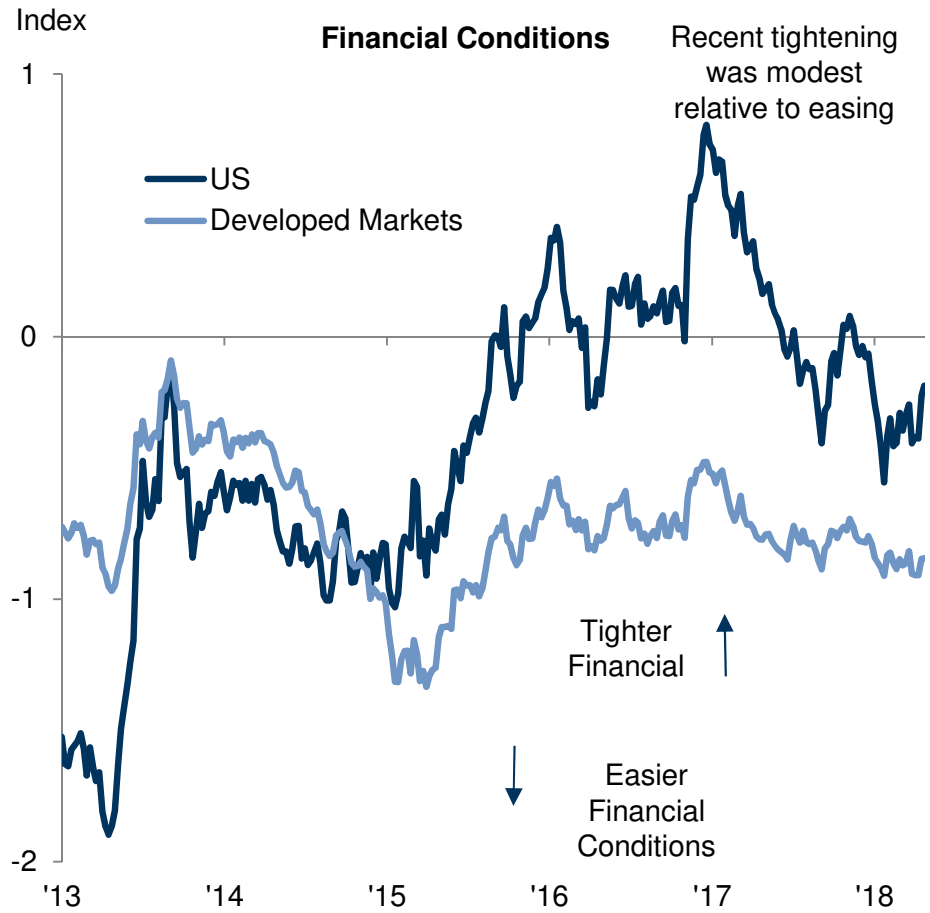
Downside surprises may be a catalyst for volatility…



Source: Macrobond, Citi. As of April 27, 2018. The Citi Economic Surprise Indices are calculated as weighted historical standard deviations of data surprises relative to market expectations.

…though financial conditions remain easy



Source: GSAM, Macrobond. Weekly data. As of April 27, 2018.

Growth: US fiscal expansion to further elongate current cycle

Fiscal expansion will boost US growth at an unusual point in the economic cycle while resulting in further widening of the fiscal deficit over the medium-term.

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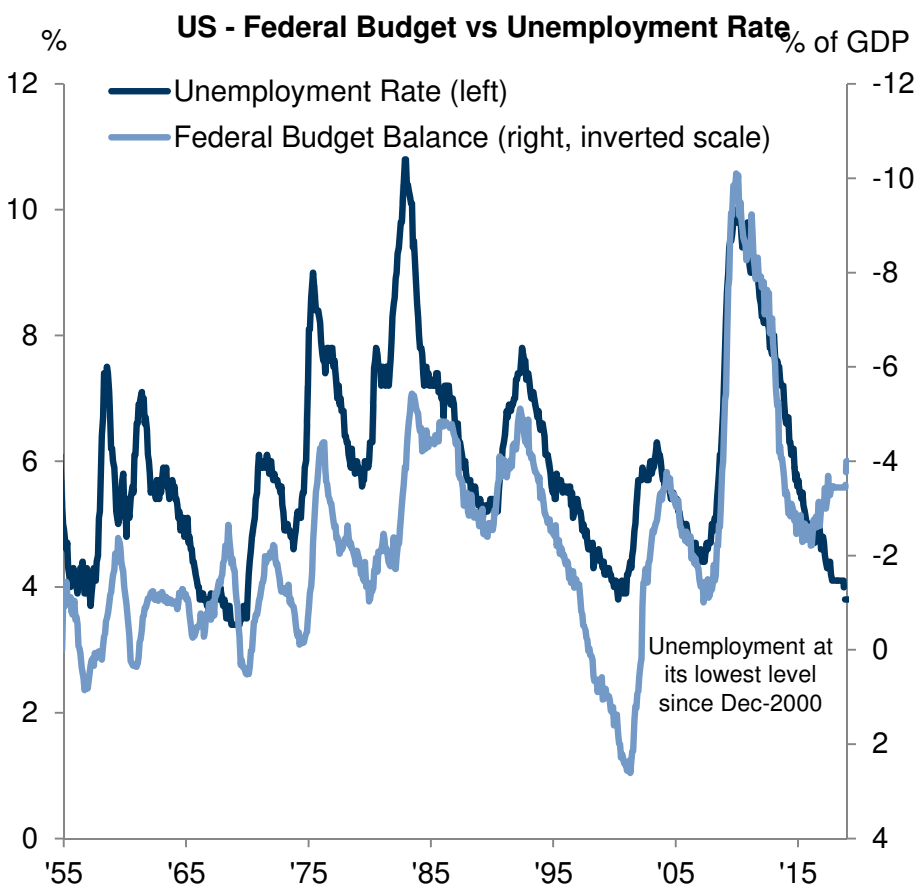
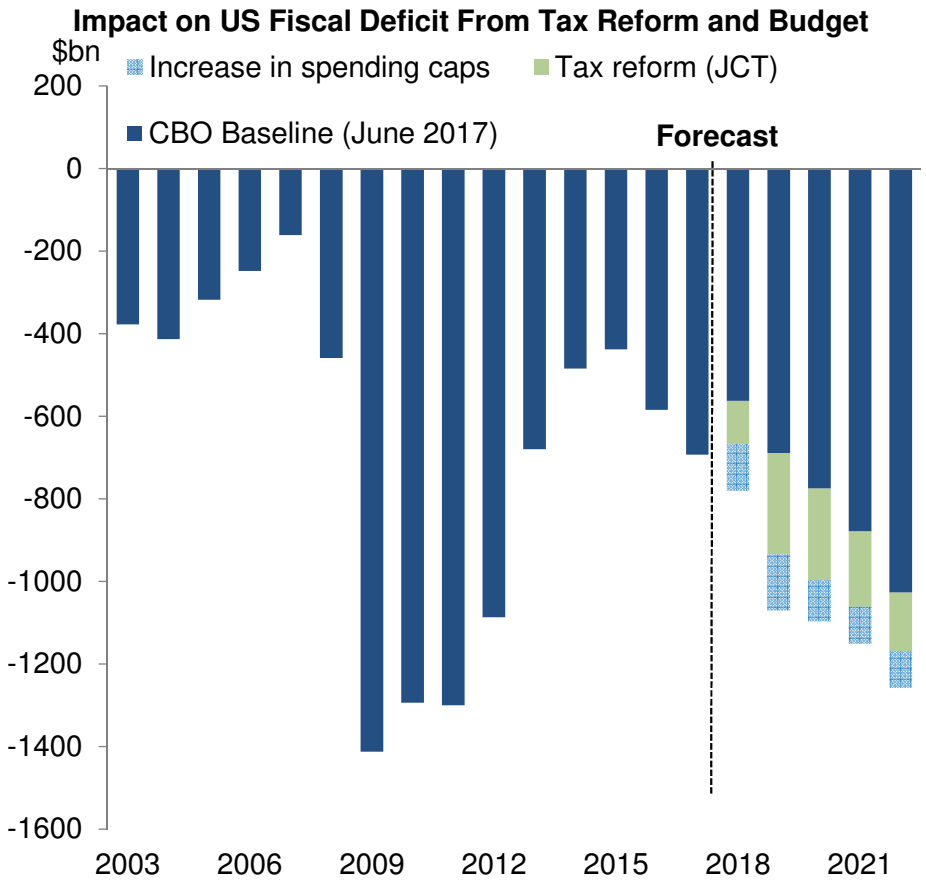
Near-term - boost for already strong economy



Sources: BLS, CBO, BEA, GSAM, US Treasury. Unemployment rate as of March 2018. Includes projections.

Medium- term – further fiscal deficit widening



Source: CBO via Haver. Projections as of February 2018.

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Growth: EM-ex China is a bright spot

EM ex-China is supported by early- or earlier-cycle countries that are emerging from commodity-induced recessions or benefiting from global growth and trade.

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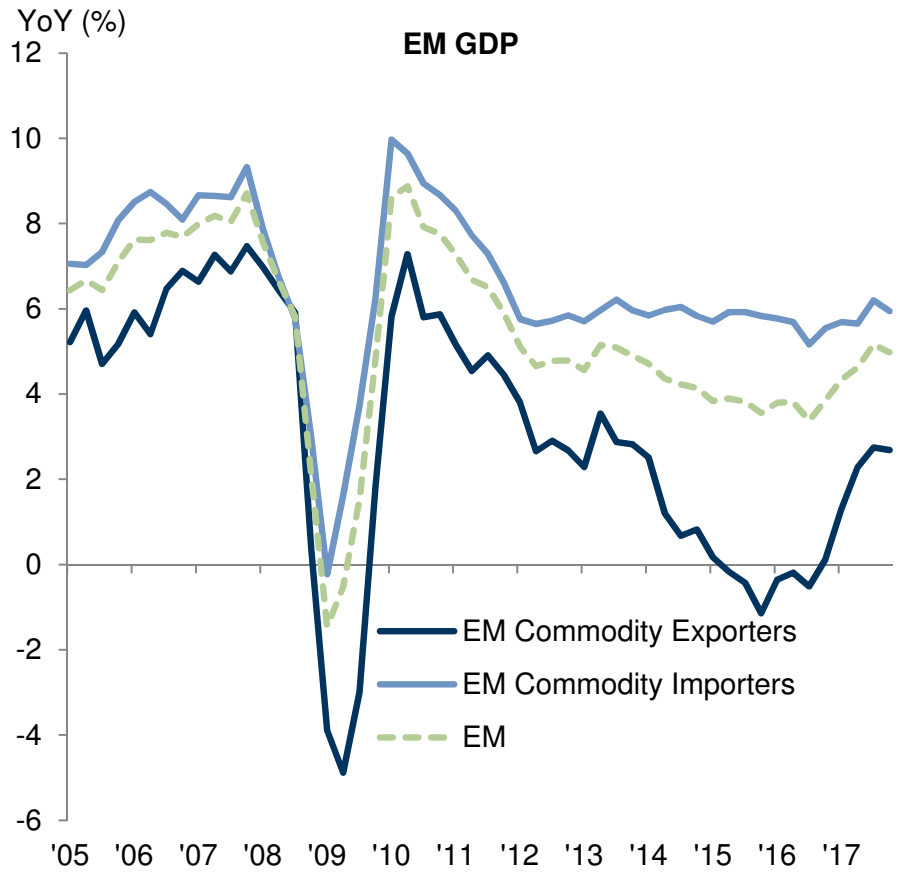
EM economies – recovered from oil price shock



Source: GSAM. As of Q4 2017.

EM growth – supported by global trade and capex

Global trade volume source: Netherlands Bureau for Economic Policy Analysis (CPB), as of February 2018. Global Investment source: Macrobond, GSAM, as of Q1 2018.

Growth: China is moderating but moving in the right direction

China tail risks have declined as financial deleveraging progress continues, while growth continues to shift towards consumption, services and higher value-add sectors.

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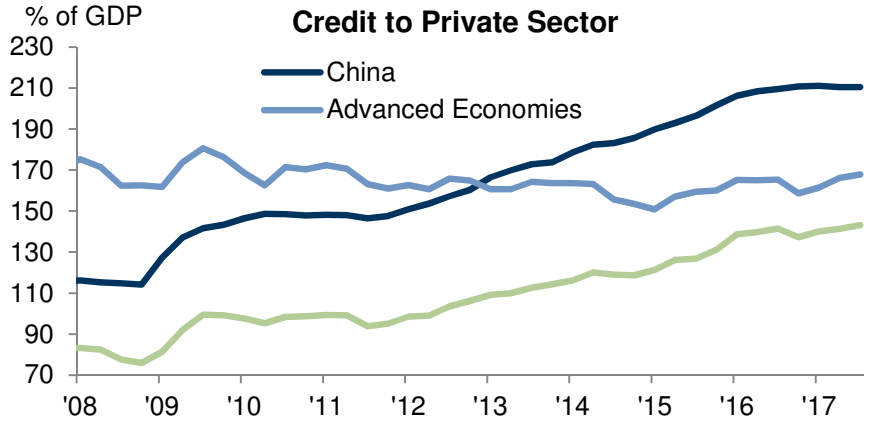
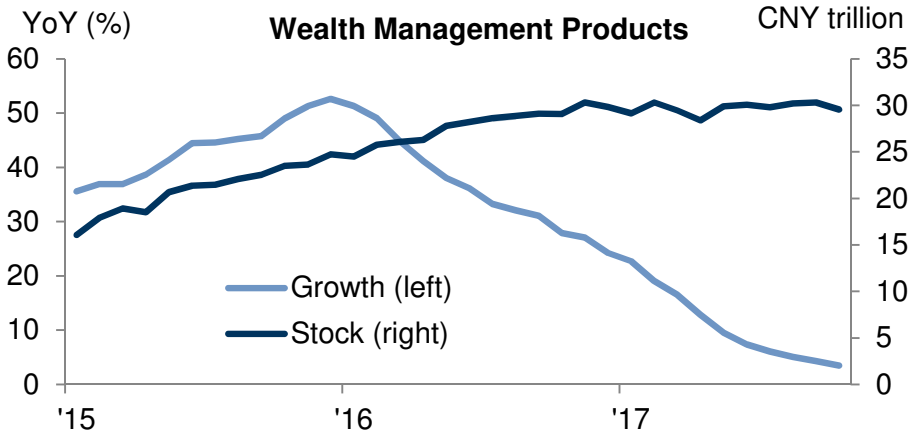
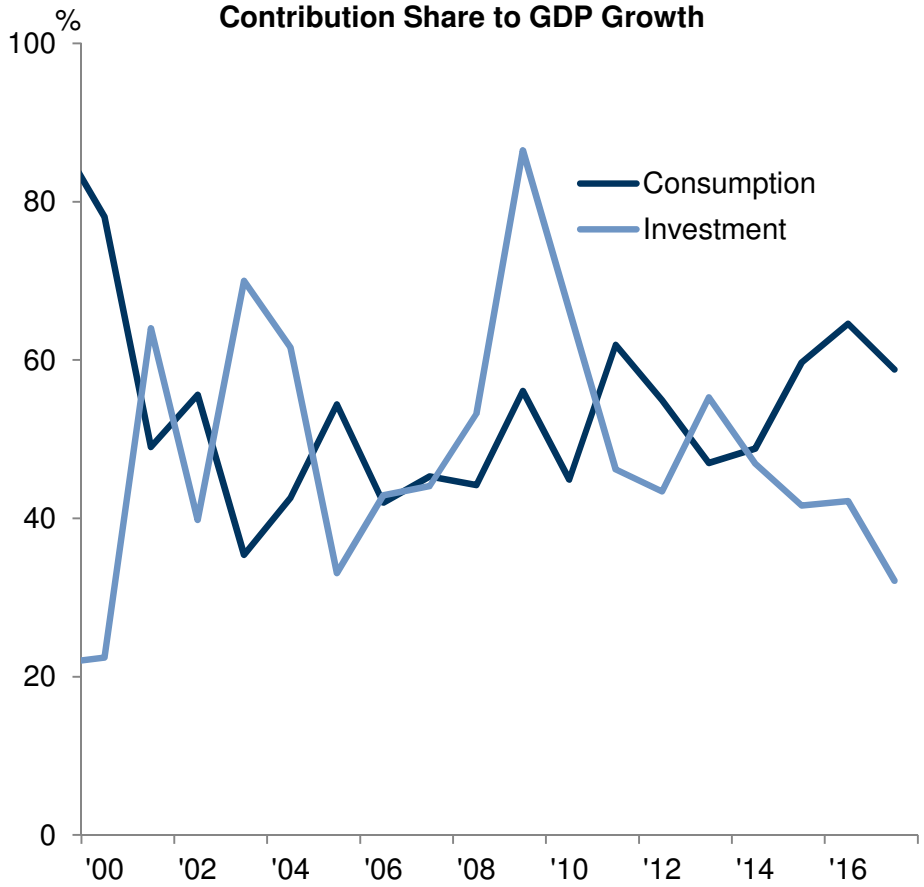
Financial leverage – high stock, moderating growth





Source: Macrobond. Top chart – BIS data, as of Q4 2017. Bottom chart – China commercial bank data as of December 2017.

Activity – more balanced and consumption-led



Source: Macrobond. Annual data – as of 2017 Annual data..

Inflation: Gradually rising inflation in the US

We expect labor market tightness and capacity constraints to gradually drive US wage growth and broader price inflation higher.

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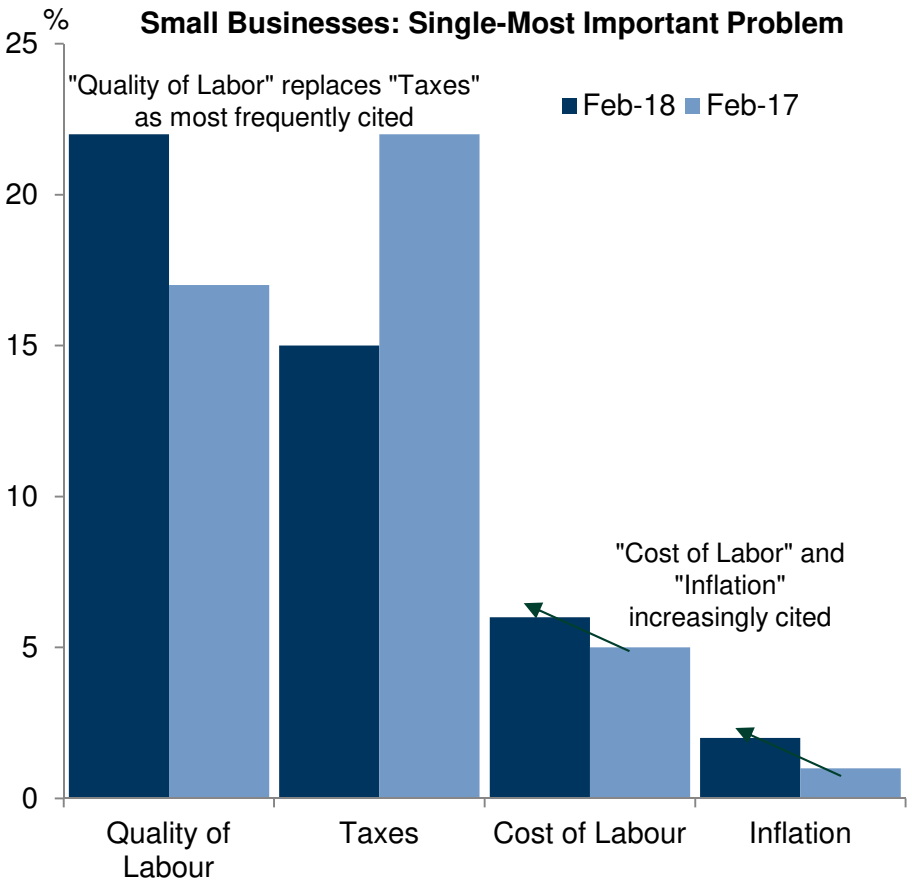
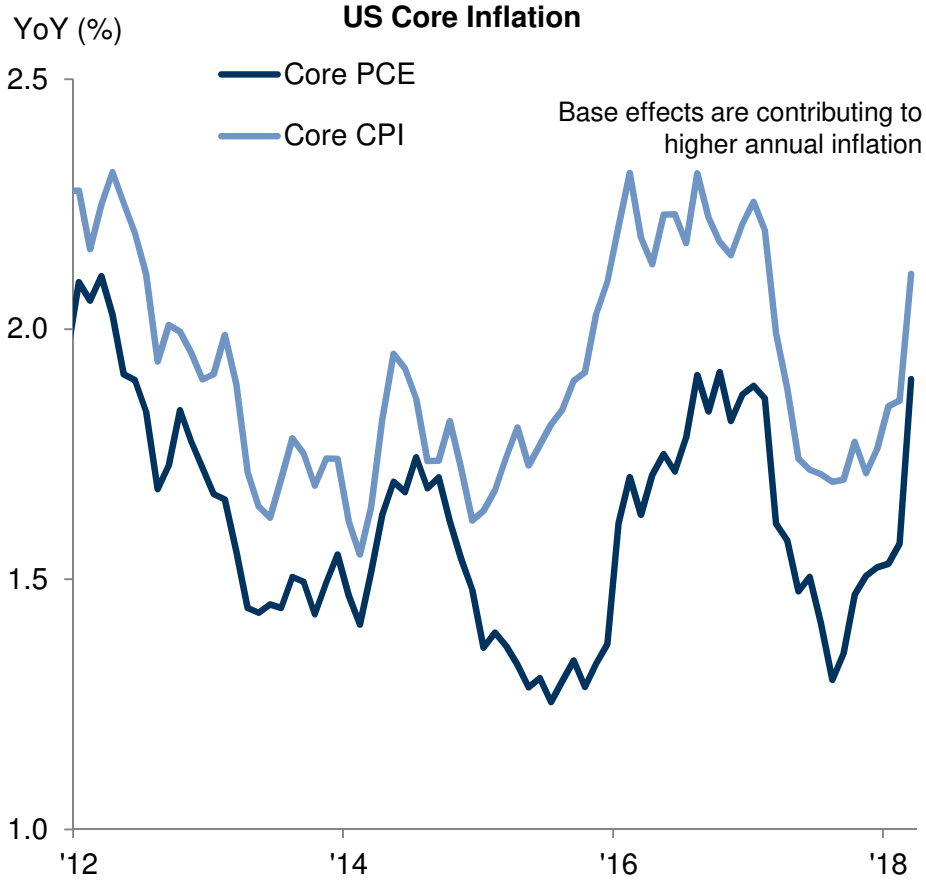
A tight labour market and capacity constraints…



Source: NFIB Business Survey.

…will see US wages and core inflation trend higher



Source: Macrobond. As of March 2018.

Inflation: Slack points to subdued Euro Area inflation

A combination of mainly cyclical, but also structural forces (e.g. demographics, technology) support our below-consensus call for Euro area inflation.

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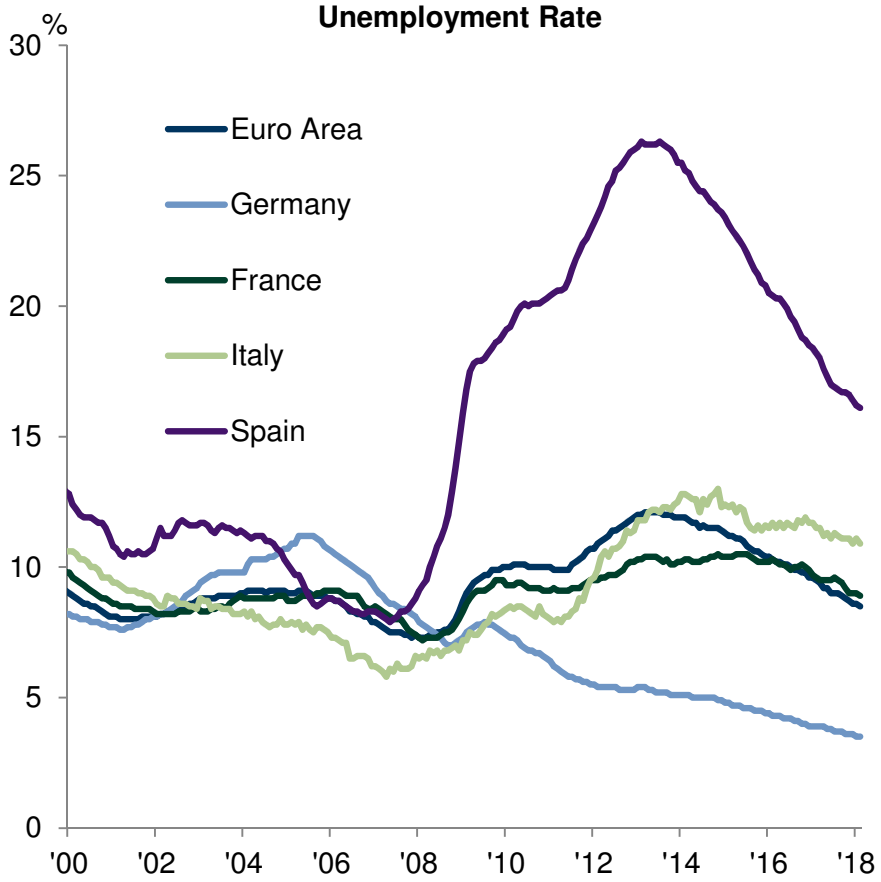
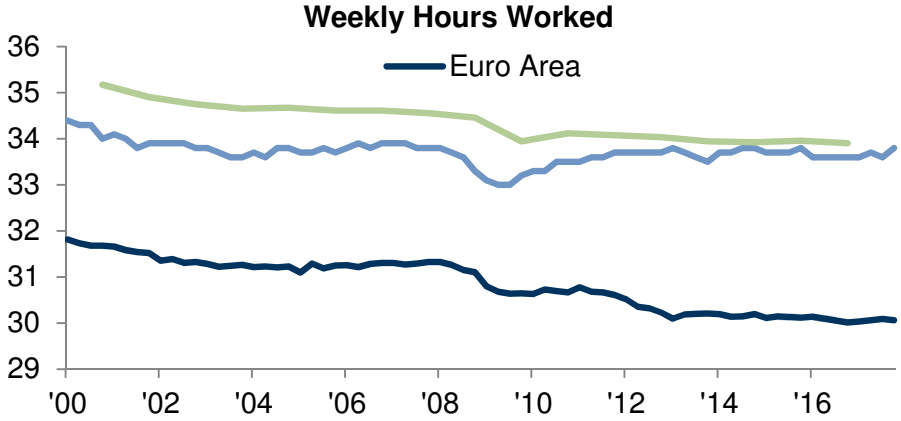
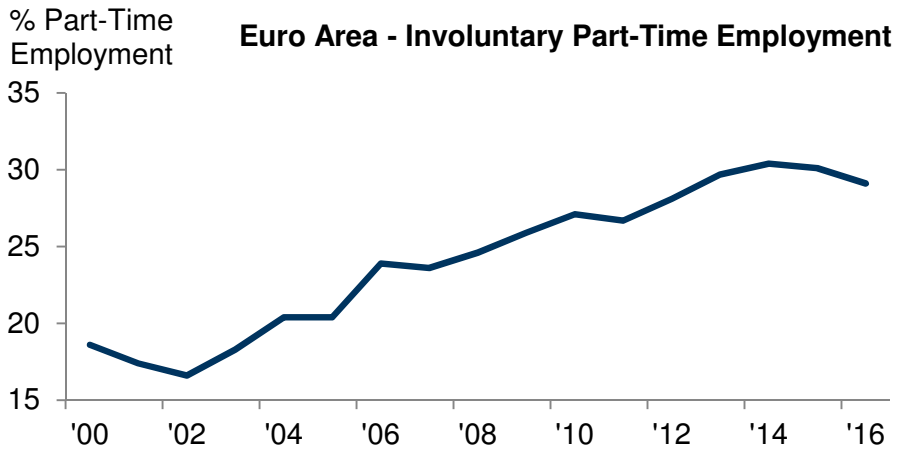
Despite a broad-based decline in unemployment…



Source: Eurostat, Macrobond. As of February 2018.

…the underlying picture in Europe points to slack





Source: Macrobond, OECD. Hours worked – quarterly data as of Q4 2017 for US and Euro area, annual data as of 2016 for OECD countries. Involuntary part-time employment (as a % of total part time employment) – annual data as of 2016.

Inflation: Below consensus forecast in Europe

Market participants and the ECB are more optimistic in their inflation outlook, however, we do not see any signs of a convincing upward trend in underlying inflation.

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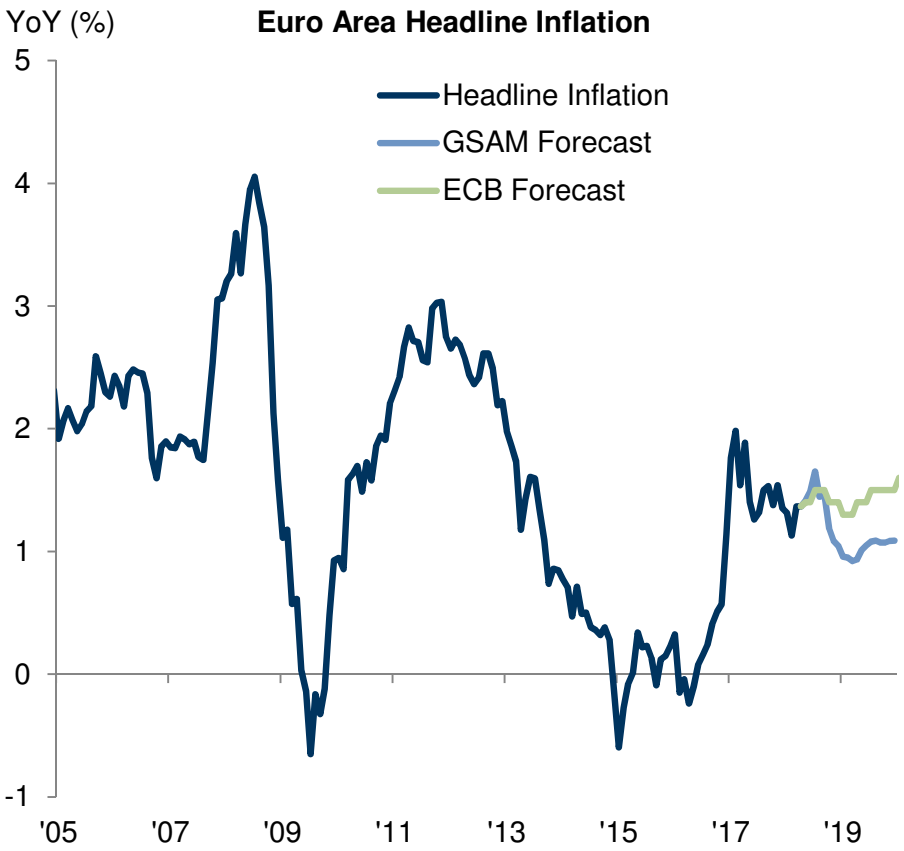
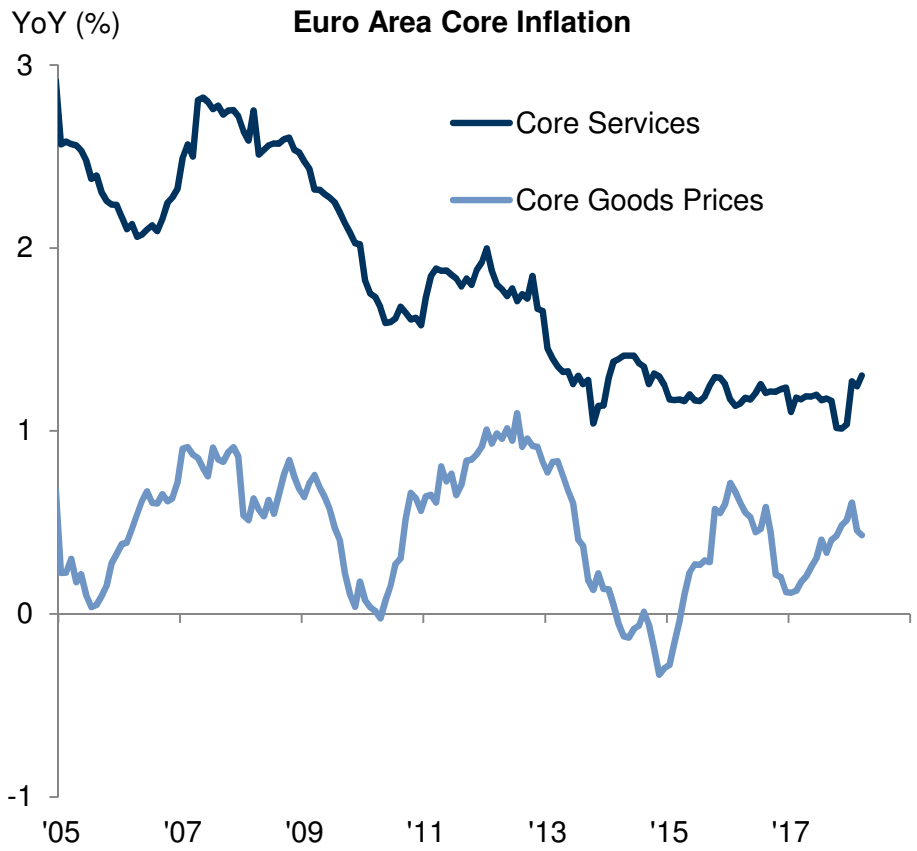
We retain our below consensus inflation view…



Source: GSAM, Macrobond, ECB. As of March 2018.

…as we see no upward trend in underlying inflation



Source: Macrobond, Eurostat, GSAM. As of March 2018.

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Central Banks: Steady normalization or tightening

In 2018, we expect the Fed to raise rates three further times while the ECB to draws QE to a close.

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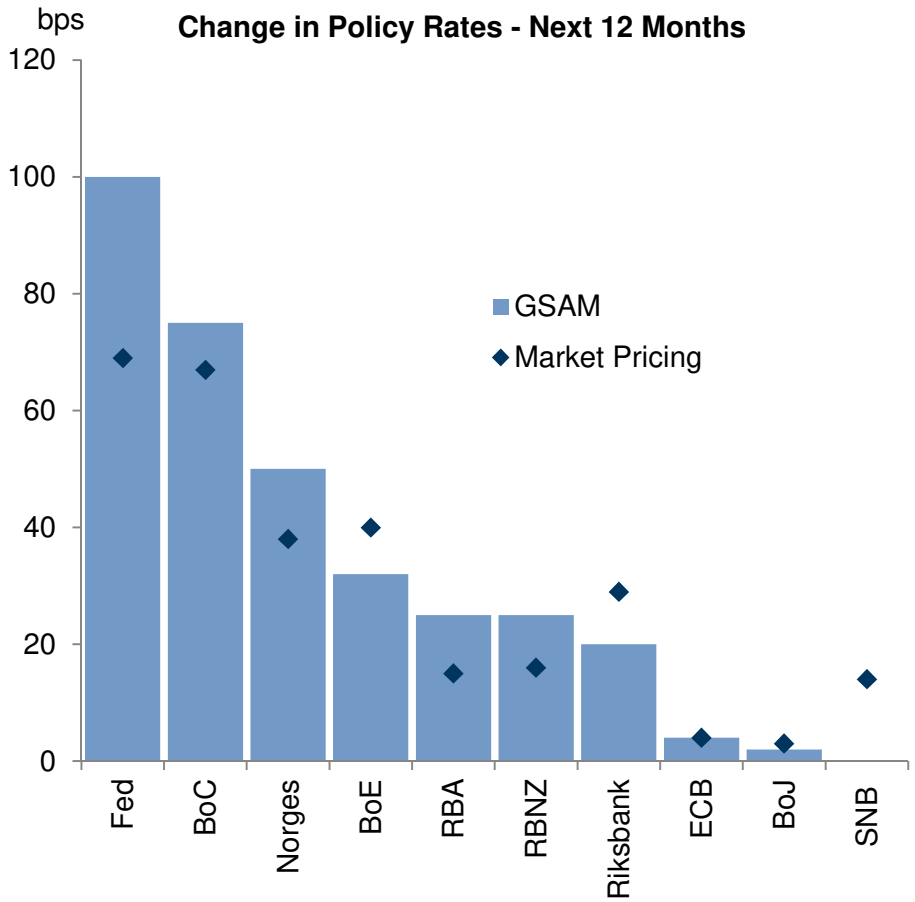
Monetary Policy - GSAM Expectations

Central Bank	GSAM Outlook
Fed	3 more rate hikes in 2018, 2 in 2019 Ongoing balance sheet unwind
ECB	Rate hike from mid-19 (short-lived hiking cycle) Tapered asset purchases from Sep-18 with QE ending Dec-18.
BoJ	No change in policy.
Other DM Central Banks	Monetary tightening in 2018: Sweden, Canada, UK and Norway No change in 2018: Australia, New Zealand and Switzerland

Source: GSAM. As of March 21, 2018.

GSAM vs Market-Implied Pricing



Source: GSAM, Bloomberg. Market pricing as of April 25 2018. GSAM Forecasts as of April 23, 2018.

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Investment Views: Bearish US Rates

Solid growth and easy financial conditions warrants further tightening. High supply and decreased bank demand is also creating a negative backdrop for Treasuries.

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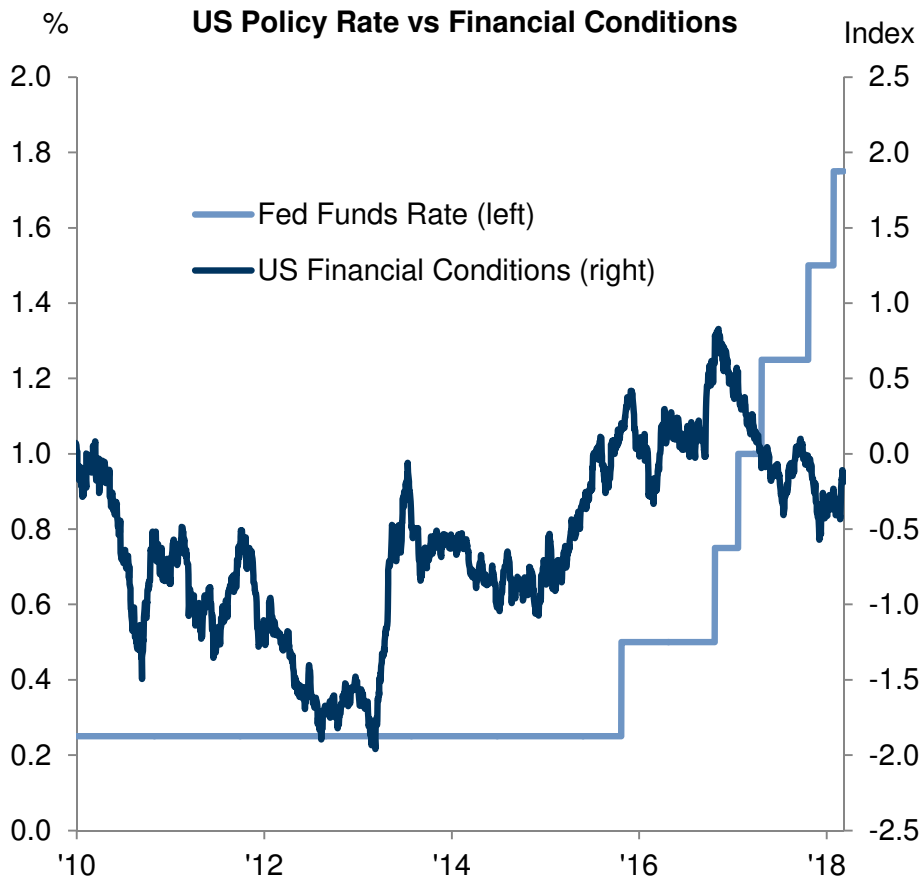
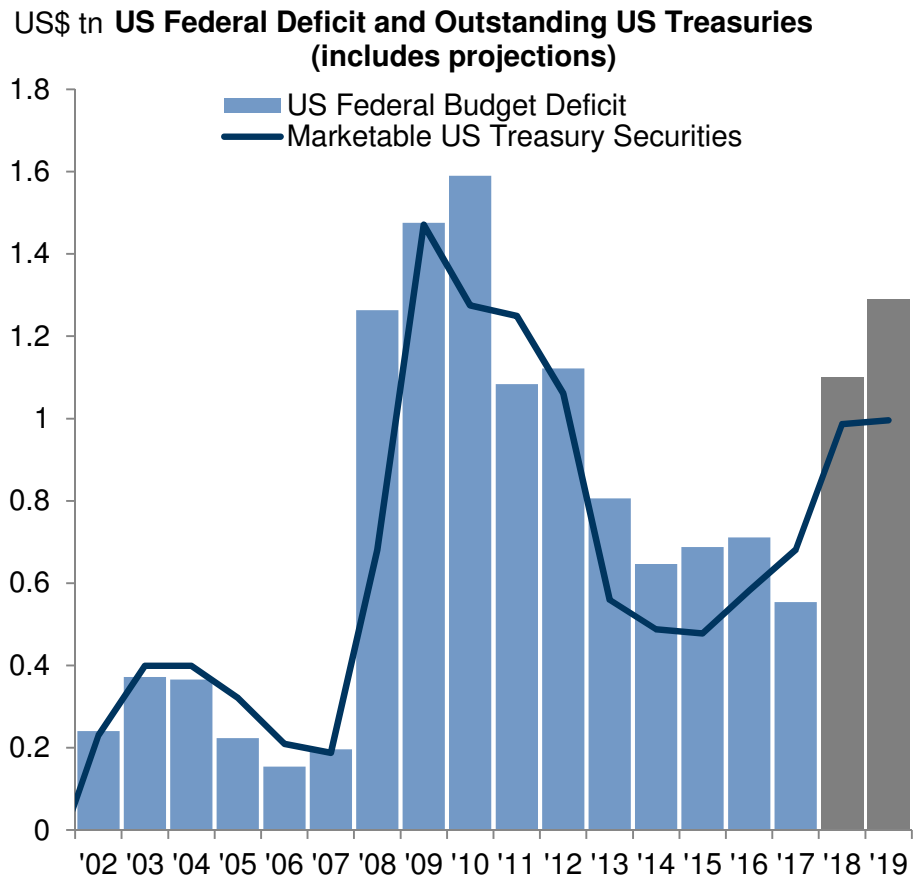
Easy financial conditions creates tightening room



Source: Macrobond, GSAM. As of April 30, 2018.

Headwind from increased supply post Budget Act



Source: Macrobond. US Budget deficit as of April 11, 2018 marketable securities as of March 8, 2018.

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Appendix

Global Fixed Income and Liquidity Solutions

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Jonathan Beinner, CIO & Co-Head of GSAM Global Fixed Income and Liquidity Solutions
Andrew Wilson, Co-Head of GSAM Global Fixed Income and Liquidity Solutions

FISG
10 Investors

Jonathan Beinner
Andrew Wilson
Jonathan Bayliss
Simon Dangoor
Sam Finkelstein
Chris Hogan
Iain Lindsay
Michael Swell
Mark Van Wyk
Whitney Watson

24+ yrs avg experience*

Oversees portfolio strategy, key risk positions, investment process, medium to long-term themes and outlook

Global Portfolio Construction & Risk

Whitney Watson
+7 professionals
6+ yrs avg experience*

Monitors portfolio construction and provide risk oversight

Stable Value

Josh Kruk
+5 professionals
18+ yrs avg experience*

Customized capital preservation solutions for retirement plans and other investors

Product Management

Alicia Keenan
+48 professionals

Provides product support across all strategies

Quantitative Research and Strategists

Ersen Bilgin
Fred van der Wyck
+20 professionals

Build proprietary research and analysis platforms to support investment teams

Top-Down Strategy Teams

Macro Rates (Jonathan Bayliss)

Duration

Jonathan Bayliss
+4 professionals
17+ yrs avg experience*

Anticipates direction of markets and changing shape of yield curve using fundamental, quantitative and technical analysis

Country

Simon Dangoor
+4 professionals
13+ yrs avg experience*

Develops individual country views using a "balance sheet" research approach, using quantitative tools as an overlay to the process

Cross-Macro

Gilberto Marcheggiano
+5 professionals
18+ yrs avg experience*

Invests across asset classes to take advantage of market inefficiencies arising from investor segmentation between assets & to get efficient exposure to specific macro themes via a basket of assets

Currency / Commodities (Sam Finkelstein)

Currency

Sam Finkelstein
+6 professionals
16+ yrs avg experience*

Employs a flexible, economics-based process to determine the relative attractiveness of currencies

Commodities

Michael Johnson
+2 professionals
12+ yrs avg experience*

Alpha strategies: timing, curve shape, relative value, and volatility trades
Beta strategies: seek exposure to commodities index and manage roll on futures or enhanced swaps

Cross-Sector

Jonathan Beinner
+5 professionals
21+ yrs avg experience*

Employs top-down fundamental analysis in allocating capital to bottom-up strategies

Bottom-Up Strategy Teams

Securitized

Chris Creed / Chris Hogan
+7 professionals
15+ yrs avg experience*

Agency mortgage selection and analysis
Securitized credit selection and analysis

Government / Swaps

Mark Van Wyk
+12 professionals
11+ yrs avg experience*

Duration & curve
Relative Value
Issuer /Issue Selection
Interest rate hedging

Municipals

Ben Barber
+15 professionals
16+ yrs avg experience*

Taxable & tax-exempt
Tax adjusted return and income
Rates and curve strategies
Municipal credit analysis

EMD

Sam Finkelstein
+22 professionals
13+ yrs avg experience*

External and local sovereign, quasi-sovereign, corporate debt and EM currencies
Fundamental research of country balance sheets
Long-term orientation

Liquidity Solutions

Dave Fishman
+16 professionals
15+ yrs avg experience*

Provide investment solutions for all liquidity tiers
Incorporate liquidity issues with strategic view to determine optimum curve exposure

Global Corporate Credit Team

Investment Grade

PM / Trading
Ben Johnson
+10 professionals
12+ yrs avg experience*

Research
Stephen Waxman
+18 professionals
13+ yrs avg experience*

High Yield & Bank Loan

PM / Trading
Michael Goldstein / Rachel Golder
+13 professionals
17+ yrs avg experience*

Research
Rob Magnuson
+19 professionals
14+ yrs avg experience*

Portfolio Managers

Multi/Single Sector

Michael Swell
Iain Lindsay
Ronald Arons
Angus Bell
Hugh Briscoe
Jeremy Cave
Russell Gao
Rachel Golder
Michael Goosay
Matthew Kaiser
Michael Kashani
Nini Lakew
Alex Lawson
Matthew Maciaszek
Avik Mittal
Philip Moffitt
Jonathon Orr
Owi Ruivivar
Jasper Sagoo
Diana Sands
Paul Seary
Jason Singer
Jason Smith
Ben Trombley
Jonathan Tung
Tetsuya Ukai
Ayumu Urata
Weiliang Zhang

Liquidity Solutions

Dave Fishman
+7 professionals
17+ yrs avg experience*

Portfolio construction and customized investment solutions

Insurance

Matthew Armas
+16 professionals
14+ yrs avg experience*

Portfolio construction and customized investment solutions for insurance clients

Alternatives

Jonathan Xiong
+4 professionals
15+ yrs avg experience*

Focus on expanding the hedge fund alternative business, covering Global Ops, Commodities and Currency hedge fund strategies including FIMS

Source: GSAM. As of April 1, 2018. *Average years of experience includes investment professionals, VP and above.

Additional notes

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The indices referenced herein have been selected because they are well known, easily recognized by investors, and reflect those indices that the Investment Manager believes, in part based on industry practice, provide a suitable benchmark against which to evaluate the investment or broader market described herein. The exclusion of "failed" or closed hedge funds may mean that each index overstates the performance of hedge funds generally.

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The portfolio risk management process includes an effort to monitor and manage risk, but does not imply low risk.

Portfolio Holdings may not be representative of current or future investments. The securities discussed may not represent all of the portfolio's holdings and may represent only a small percentage of the strategy's portfolio holdings. Future portfolio holdings may not be profitable.

High-yield, lower-rated securities involve greater price volatility and present greater credit risks than higher-rated fixed income securities.

Emerging markets securities may be less liquid and more volatile and are subject to a number of additional risks, including but not limited to currency fluctuations and political instability.

The currency market affords investors a substantial degree of leverage. This leverage presents the potential for substantial profits but also entails a high degree of risk including the risk that losses may be similarly substantial. Such transactions are considered suitable only for investors who are experienced in transactions of that kind. Currency fluctuations will also affect the value of an investment.

The strategy may include the use of derivatives. Derivatives often involve a high degree of financial risk because a relatively small movement in the price of the underlying security or benchmark may result in a disproportionately large movement in the price of the derivative and are not suitable for all investors. No representation regarding the suitability of these instruments and strategies for a particular investor is made.

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Goldman Sachs Business Principles

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1. Our clients' interests always come first. Our experience shows that if we serve our clients well, our own success will follow
2. Our assets are our people, capital and reputation. If any of these is ever diminished, the last is the most difficult to restore. We are dedicated to complying fully with the letter and spirit of the laws, rules and ethical principles that govern us. Our continued success depends upon unswerving adherence to this standard
3. Our goal is to provide superior returns to our shareholders. Profitability is critical to achieving superior returns, building our capital, and attracting and keeping our best people. Significant employee stock ownership aligns the interests of our employees and our shareholders
4. We take great pride in the professional quality of our work. We have an uncompromising determination to achieve excellence in everything we undertake. Though we may be involved in a wide variety and heavy volume of activity, we would, if it came to a choice, rather be best than biggest
5. We stress creativity and imagination in everything we do. While recognising that the old way may still be the best way, we constantly strive to find a better solution to a client's problems. We pride ourselves on having pioneered many of the practices and techniques that have become standard in the industry
6. We make an unusual effort to identify and recruit the very best person for every job. Although our activities are measured in billions of dollars, we select our people one by one. In a service business, we know that without the best people, we cannot be the best firm
7. We offer our people the opportunity to move ahead more rapidly than is possible at most other places. Advancement depends on merit and we have yet to find the limits to the responsibility our best people are able to assume. For us to be successful, our men and women must reflect the diversity of the communities and cultures in which we operate. That means we must attract, retain and motivate people from many backgrounds and perspectives. Being diverse is not optional; it is what we must be
8. We stress teamwork in everything we do. While individual creativity is always encouraged, we have found that team effort often produces the best results. We have no room for those who put their personal interests ahead of the interests of the Firm and its clients
9. The dedication of our people to the Firm and the intense effort they give their jobs are greater than one finds in most other organisations. We think that this is an important part of our success
10. We consider our size an asset that we try hard to preserve. We want to be big enough to undertake the largest project that any of our clients could contemplate, yet small enough to maintain the loyalty, the intimacy and the esprit de corps that we all treasure and that contribute greatly to our success
11. We constantly strive to anticipate the rapidly changing needs of our clients and to develop new services to meet those needs. We know that the world of finance will not stand still and that complacency can lead to extinction
12. We regularly receive confidential information as part of our normal client relationships. To breach a confidence or to use confidential information improperly or carelessly would be unthinkable
13. Our business is highly competitive, and we aggressively seek to expand our client relationships. However, we must always be fair competitors and must never denigrate other firms
14. Integrity and honesty are at the heart of our business. We expect our people to maintain high ethical standards in everything they do, both in their work for the firm and in their personal lives