

Income in a Low Return World

Today's market presents a number of challenges for conservative, income-oriented investors. First, historically low interest rates mean it is more difficult to generate significant income potential from fixed income investments. Second, equity markets are fully valued, which in the past has often meant muted equity returns and yields.¹ Third, as a result of these challenges, market volatility² may increase, and the prospect for investment returns over next five years may look very different than the last five. The more risk-averse and income-oriented an investor is, the more challenging these issues in the future may be.

How can investors seeking a conservative mix of income and growth navigate this new environment? Let's address each in the order above. (1) Amid low interest rates, investors can expand the investment opportunity set to consider non-traditional asset classes. (2) Amid rich equity and bond valuations, we believe investors should avoid overreaching for yield, and should seek to manage the drivers of income and return dynamically. (3) To address riskier markets, we believe investors should seek to reduce portfolio volatility, which may help their assets last longer, which may mean more time and more opportunity to pursue income generation. Let's review each of these challenges and discuss strategies to adapt in more detail.

¹ As measured by the Cyclically Adjusted Price-to-Earnings (CAPE) ratio, a valuation metric, of the S&P 500 Index, and subsequent 10-year return data, over the period 1929–2012. The CAPE ratio is the price-to-earnings ratio, where earnings are calculated as the average inflation-adjusted earnings from the previous 10 years.

² Volatility, as defined by standard deviation, is a statistical measure of the risk associated with a return series.

Past performance does not guarantee future results, which may vary. Please see the end of this document for index definitions and additional disclosures.

Challenge 1: Finding Yesteryear's Income Levels amid Today's Historically Low Interest Rates

Expanding the Opportunity Set to Consider Non-traditional Asset Classes

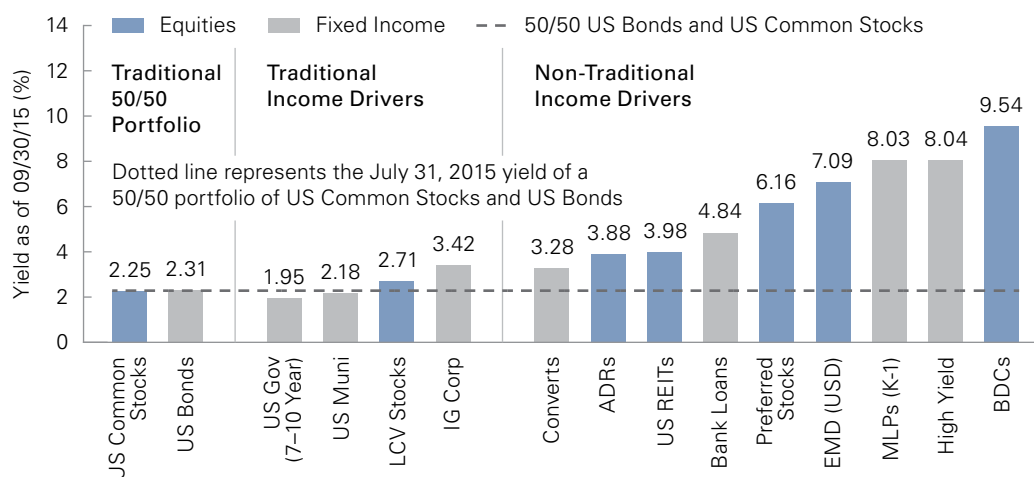
Historically, many investors have turned to core fixed income, municipal bonds and US corporate bonds in search of income. While we believe these asset classes remain core elements of a well-diversified portfolio, we also believe investors should incorporate other sources of income.

An expanded opportunity set may, in our view, unlock the potential for (1) higher yield than may be possible in traditional asset classes, (2) greater diversification of sources of risk and income and (3) investments which historically have exhibited less sensitivity to rising interest rates than traditional fixed income investments.³

Investors considering an expanded opportunity set may, for instance, seek to understand the risks and potential rewards of asset classes such as Real Estate Investment Trusts (REITs), Master Limited Partnerships (MLPs), Business Development Companies (BDCs), High Yield Bonds, bank loans and subordinated bank debt.

Exhibit 1 compares the yield of a traditional 50/50 portfolio with the yields of traditional income-generating asset classes and with non-traditional asset classes such as those just mentioned.

Exhibit 1: Yield Comparison of Traditional and Non-traditional Income Drivers



Sources: Bloomberg, Barclays, Credit Suisse as of September 30, 2015. These illustrative results do not reflect any GSAM product and are being shown for informational purposes only. No representation is made that an investor will achieve results similar to those shown. Yield for equities is represented as dividend yield. Yield for fixed income is the rate of return anticipated on a bond if it is held until the maturity date. Yield calculations can differ by index provider. Yield for MLPs (K-1) is represented as the distribution yield and distributions by MLPs reflect both income and return of principal for the investor. Yield for convertibles is represented as the average of the greater of current yield, yield-to-maturity, or yield-to-put for each issue, weighted by the market value of each issue. Note that for mandatory convertible securities, only current yield is used. The asset classes are represented as such: US Common Stocks=S&P 500 Index, US Bonds=Barclays US Aggregate Index, Large Cap Value (LCV) Stocks=Russell 1000 Value Index, US Government (7-10 Year) Bonds=Barclays US Treasury Bond 7-10 Year Term Index, US Muni=Barclays US Municipal (Muni) Bond Index, Investment Grade (IG) Corp=Barclays Global Aggregate Corporate Index, Convertible Bonds (Converts)=Barclays US Convertibles Composite Index, ADRs=S&P ADR Index, US REITs=FTSE EPRA/NAREIT United States Index, Bank Loans=Credit Suisse Leveraged Loan Index, EMD (USD)=Barclays EM USD Aggregate Index, High Yield Bonds=Barclays Global High Yield Index, MLPs=Alerian MLP Index (Source: Alerian), Preferred Stocks=S&P Preferred Stock ETF, BDCs=Wells Fargo BDC Index. "Traditional Income Drivers" are defined as commonly owned income-generating investments in US mutual funds. "Non-traditional income drivers" are defined as income-generating investments which are less commonly owned than Traditional Income Drivers in US mutual funds. Diversification does not protect an investor from market risk and does not ensure a profit. **Past performance does not guarantee future results, which may vary.** Please see the end of this document for index definitions.

³ As measured by monthly return data in income-oriented asset class indexes including Credit Suisse Leveraged Loan USD Index, Barclays Global High Yield TR USD Index, JPM EMBI Global Diversified TR USD Index, and JPM GBI EM Global Diversified Index over the period March 31, 2007 to June 30, 2015.

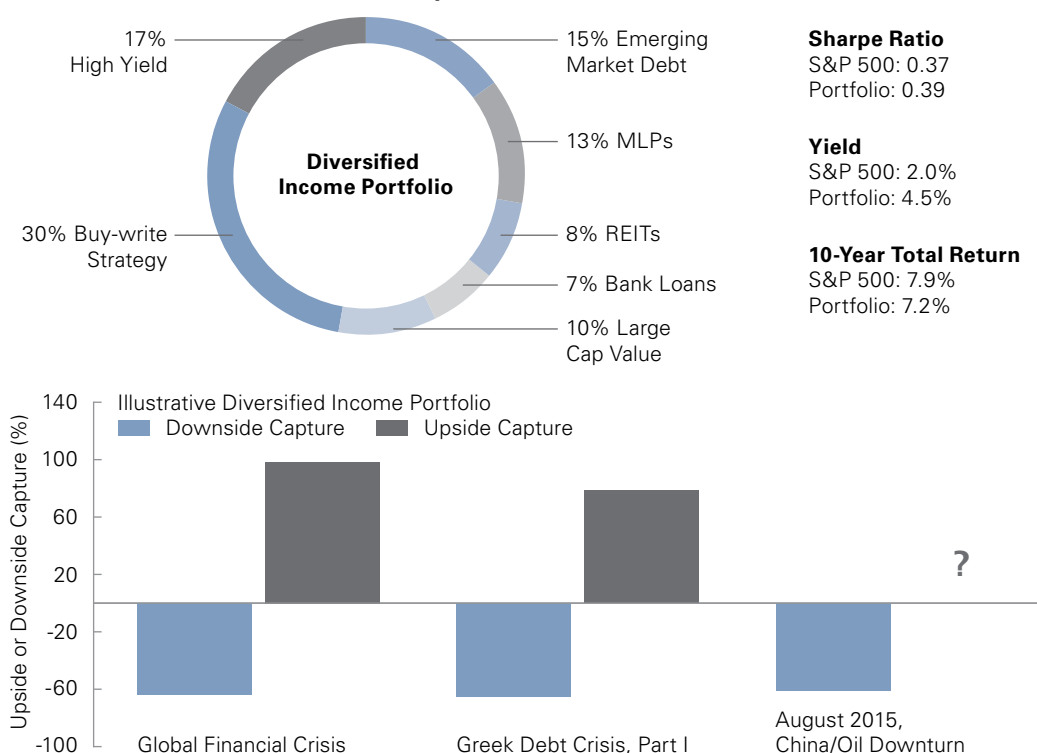
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Many of these non-traditional income drivers historically have been more volatile than fixed income—a consideration for conservative, income-oriented investors if bond allocations are used to fund the addition of these nontraditional income drivers to a portfolio. But we would emphasize that they have also been less volatile than the S&P 500 Index when owned in a diversified manner, with total returns which historically have approached those of the S&P 500.

When this diversified income portfolio is viewed as part of a broader income strategy, we believe the combination of attractive yield and higher historical returns potentially can make meaningful contributions to a conservative, income-oriented investment approach.

In Exhibit 2, we compare the 10-year return of what we call a diversified income portfolio to the S&P 500, on the basis of risk-adjusted returns (Sharpe Ratio), yield and 10-year total return.

Exhibit 2: In Our View, Income Variety Has Value



Source: Bloomberg and GSAM. Top chart notes: These illustrative results do not reflect any GSAM product and are being shown for informational purposes only. No representation is made that an investor will achieve results similar to those shown. Allocations are rounded to the nearest percent. The diversified income portfolio is a representation of a diversified portfolio whose allocation is depicted in the chart above. Emerging Market Debt refers to a 53.4%/46.6% blend of Dollar Denominated EM Debt and Local Currency EM Debt, respectively. REITs (Real Estate Investment Trusts) refer to a 53.8%/46.2% blend of US REITs and International REITs, respectively. MLPs refers to the S&P Global Infrastructure Index. Yield shown is current dividend yield for equities and current yield as of July 2015 for fixed income. Large Cap Value refers to the Russell 1000 Value Index. Buy-Write Strategy refers to the CBOE S&P 500 BuyWrite Index. Bank Loans refers to the Credit Suisse Leveraged Loan Index. High Yield refers to the Barclays Global High Yield Index. Diversification does not protect an investor from market risk and does not ensure a profit. The Sharpe Ratio represents annualized total returns less a risk-free rate of 2.5% divided by the standard deviation of monthly returns from July 2005 to June 2015. Yield assumptions for the Diversified Income Portfolio and S&P 500 are represented by the asset-weighted average 12-month yield of the Institutional and No-Load Shares, excluding those funds with 12-b(1) fees, in the Morningstar peer groups, respectively, through 7/31/2015. The yield assumptions for the Diversified Income Portfolio is a weighted average of the asset-weighted average 12-month Morningstar yield of the Institutional and No-Load Shares, excluding those funds with 12-b(1) fees, for the asset classes shown in the chart. Bottom chart notes: The Diversified Income Portfolio represents a diversified portfolio whose allocation is depicted in the top chart. The 'Global Financial Crisis' refers to the downturn and one year period after February 2009. The 'Greek Debt Crisis, Part I' refers to the downturn and one year period after September 2011. The 'China, Oil Downturn' refers just to the downturn in August 2015. In the chart, Upside Capture is the performance of the Diversified Income Portfolio relative to the S&P 500 during periods of positive S&P 500 returns and Downside Capture is the performance of the Diversified Income Portfolio relative to the S&P 500 during periods of negative S&P 500 returns. Please see end disclosures for additional definitions. **Past performance does not guarantee future results, which may vary.**

Challenge 2: Rich Equity and Bond Valuations

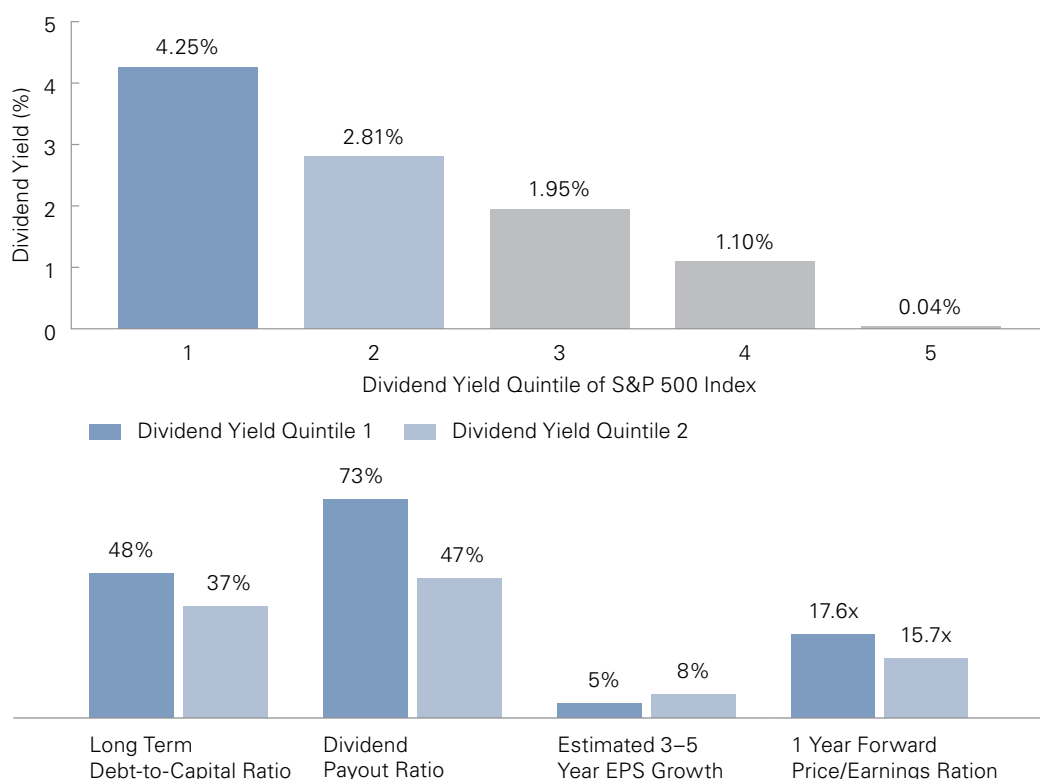
Don't Overreach for Yield—and Understand Dynamic Management

When attempting to increase current income, investors often proceed in any of several ways: for instance, moving into higher yielding equities, taking more credit risk by pushing down in credit quality and/or taking on more interest rate risk by buying longer-dated bonds. In the current environment, we believe that pulling any one of these three “yield levers” too aggressively may pose significant drawbacks.

Higher-yielding stocks may be richly valued, which may increase their potential volatility. In the equity markets, we believe there can be meaningful benefits to sacrificing some yield in the effort to identify more attractive overall investment opportunities.

As shown in Exhibit 3, the highest-yielding stocks in the S&P 500 Index have more expensive valuations and less favorable yield sustainability metrics, meaning they (1) employ more leverage, as measured by their long-term debt-to-capital ratios, (2) they exhibit higher dividend payout ratios (meaning they pay out a greater percentage of cash flow to fund their dividends) and (3) they may offer lower earnings growth potential, as measured by 1-year forward price-to-earnings ratios. For these reasons, we believe these higher-yielding stocks may be less attractive from the perspectives of both risk and return potential.

Exhibit 3: The Highest-Yielding Stocks Look Stretched, in Our View



Source: FactSet as of July 31, 2015. The top chart compares dividend yields of S&P 500 Index stocks, as divided in five equally sized groupings or “quintiles.” The bottom chart compares a range of fundamental metrics for the highest-yielding quintile (the first quintile) versus the second-highest yielding quintile. These illustrative results do not reflect any GSAM product and are being shown for informational purposes only. No representation is made that an investor will achieve results similar to those shown. S&P 500 quintiles subdivide dividend paying stocks within the S&P 500 index into fifths with the first quintile representing the 100 highest yielding stocks and quintile five, the 100 lowest. Dividend yield is calculated using annual dividends per share divided by the share price as of the report date. 1-year forward price/earnings ratio is calculated using share price as of the report date divided by the mean earnings per share (EPS) estimate for the next unreported fiscal year. Long term debt-to-capital ratio is calculated as long term debt divided by total capital. Dividend payout ratio is calculated as annual dividends per share divided by annual earnings per share as of the most recent fiscal period. Estimated 3–5 year EPS growth rate is calculated as the mean of all 3–5 year EPS growth rate estimates provided to FactSet by individual brokers using their own individual methodologies. **Past performance does not guarantee future results, which may vary.**

Corporate bonds are becoming riskier. Investors often seek extra yield by investing in corporate bonds rather than US Treasury bonds. This means that they accept the higher risk of lending to a company rather than the government, in exchange for greater income potential. While this strategy may be attractive in some cases, one of the risks is that companies borrowing too much may become vulnerable in the event of an economic recession. While we do not see a recession in the near-term, companies have borrowed significant sums in the high yield and investment grade markets over last few years, raising the risk of credit rating downgrades and perhaps the risk of default. Downgrades and defaults can significantly undermine the return of a corporate bond portfolio. With overall yields on corporate bonds still low relative to history, we think investors should exercise caution with their allocation and be selective when seeking higher yield in corporate bond markets.

Longer-dated bonds could lose money if interest rates rise (even a little bit). As an example, a 10-year bond of similar quality to a five-year bond will generally offer a higher yield, but with an important tradeoff: longer-term bonds are more exposed to potential losses if interest rates rise. Simply put, if interest rates rise, prices fall. The income earned on a bond may not be enough to offset the price loss.

Exhibit 4 shows how much rates can rise on Treasury bonds with different maturities before the total return becomes negative (the “breakeven” yield), as of October 14, 2015. The break-even yield assumes a one-year holding period.

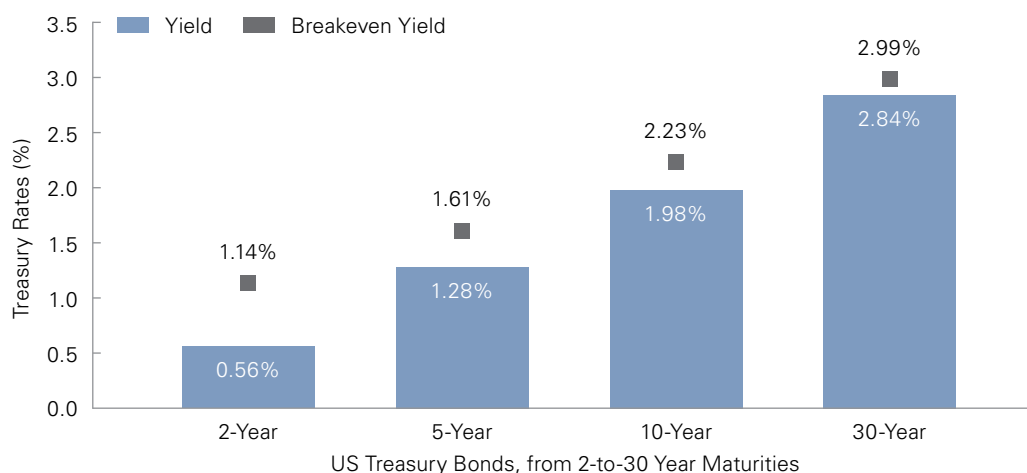
Over the course of a year, much can happen to change a bond’s potential return. However, as a starting point, as the exhibit illustrates, two-year interest rates could more than double before an investor loses money. Meanwhile, even a small rise in longer-term rates could result in a loss.

With the possibility of the US Federal Reserve raising interest rates, the extra yield on long-term bonds in our view may not be worth the extra risk.

Considering these potential drawbacks, investors who reach too aggressively for yield in higher-yielding equities, lower-quality credit or longer maturity bonds may find their portfolios susceptible to subpar returns and greater volatility than their historical experience.

Exhibit 4: US Treasury Bonds: Breakeven Yields

Measuring How much Treasury Rates can rise before total return is negative



Source: Bloomberg, as of October 14, 2015. Shown for illustrative purposes only. **Past performance does not guarantee future results, which may vary.**

We believe this changing investment landscape and the challenges ahead build a case for dynamic portfolio management, which we define as the effort to add value in several ways:

- Asset allocation: Seeking to make better top-down decisions on topics such as bond-versus-equity exposures, US vs. global exposures, and more
- Security selection: Making decisions on the best individual companies or issuers to own
- Location in the capital structure: Deciding which investment to own for a given company or issuer, for instance, choosing between a company's bonds issuances, by considering factors such as differences in yield, upside potential and volatility
- Duration management: Seeking to manage interest rate risk, by increasing or decreasing a portfolio's exposure to interest rates depending on the outlook for future rate movements. Doing so may benefit investors who seek income potential and continued exposure to bonds, with the flexibility to adapt to different interest rate environments.

Challenge 3: More Volatile Markets

Reducing Portfolio Volatility Potentially May Benefit Portfolio Longevity and Income Generation

As the equity-market gyrations of 2015 show, investors have no guarantee that the last several years' low volatility environment will last. In this environment, we believe a close eye on risk can be crucial.

Investors who seek improved portfolio income longevity should, in our view, understand the role that lower overall portfolio risk historically has played in helping income last longer.

In particular, we would like to highlight what we view as a link between reducing volatility and increasing portfolio income longevity.

At Goldman Sachs Asset Management, our analysis to illustrate this link (Exhibit 5) used historical data to construct millions of potential 30-year investment horizons for portfolios with similar returns, but different levels of risk. We assumed a 4% annual income distribution, increased annually by historical inflation, for purposes of illustrating a representative income target level.

In this analysis, a \$1 million "low volatility" portfolio comprised of 55% global equity and 45% global fixed income lasted 30 years or longer distributing this 4% level of annual income more than four out of five times (83% of the time).

In cases when the low-volatility portfolio lasted exactly 30 years (the 17th percentile outcome), we found that higher volatility portfolios had been depleted earlier—potentially years earlier—depriving investors of income toward the later years of the portfolio's lifespan.

In this analysis, a "mid volatility" portfolio (70% global equities and 30% global fixed income) had been, on average, depleted 3.5 years earlier than the low volatility portfolio. And a "high volatility" portfolio (85% global equities, 15% global fixed income) had been depleted about six years earlier.

As Exhibit 5 shows, these differing time spans mean that portfolios can deliver markedly different sums of income over their total lives. For instance, the low-volatility portfolio lasting exactly thirty years distributed about \$1.8 million over the entire time period, while the mid- and high-volatility portfolios, having exhausted their assets years earlier, distributed meaningfully less.

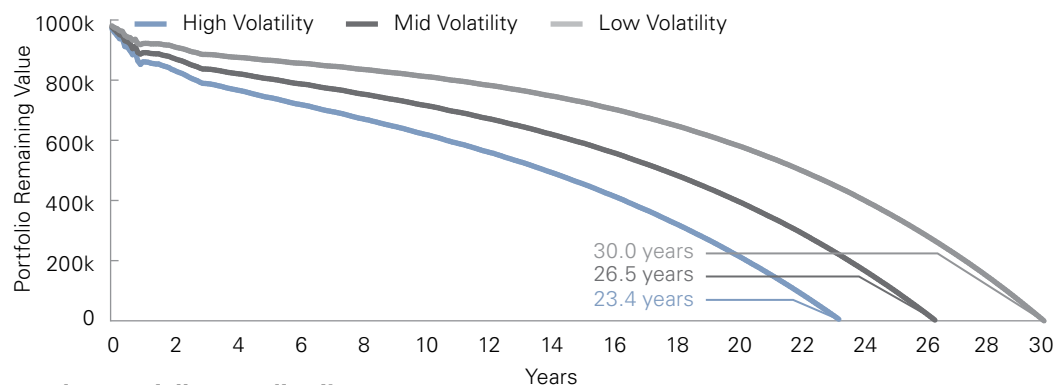
We believe investors should understand the role that risk can play in determining a portfolio's longevity and income potential—especially when it comes to a portfolio's potential to distribute income over time. This lesson can, in our view, apply both at the total portfolio level as well as to individual allocations within a portfolio.

Exhibit 5: Seeking Improved Portfolio Longevity

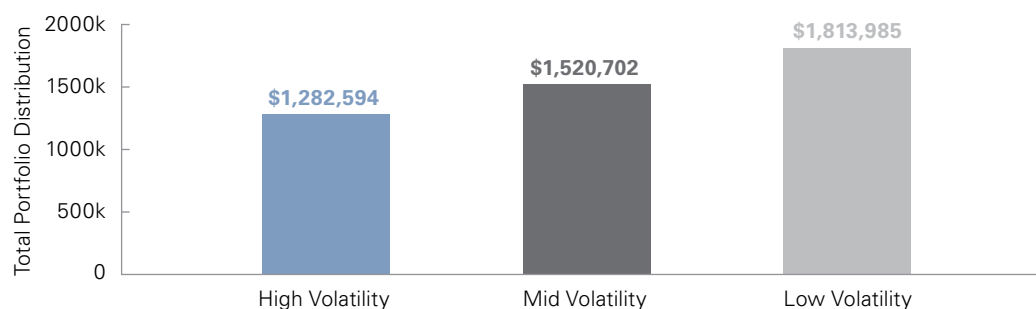
Portfolio Starting Value	\$1,000,000
Year 1 Dollar Distribution	\$40,000
Assumed Inflation	2.7% (Historic 30-Year Inflation)

Lower volatility portfolios potentially may last longer...

Our scenario analysis using historical data suggests that the low volatility portfolio distributing 4% annual income, indexed to inflation, lasted 30 years or longer 83% of the time. In cases when the low-volatility portfolio lasted exactly 30 years (the 17th percentile outcome), the high- and mid-volatility portfolios were fully depleted years earlier.

**...and potentially may distribute more.**

The low volatility portfolio lasting exactly 30 years would have distributed about \$1.8 million over its lifespan—while the mid- and high volatility portfolios, depleted earlier, distributed less income.



Source: GSAM SAS/Portfolio Strategy, 2015. These illustrative results do not reflect any GSAM product and are being shown for informational purposes only. No representation is made that an investor will achieve results similar to those shown. Growth of and distributions from a \$1 million portfolio: A graphical measurement of a portfolio's gross return that simulates the performance of an initial investment of \$1MM over the given time period. The example provided does not reflect the deduction of investment advisory fees and expenses which would reduce an investor's return. Please be advised that since this example is calculated gross of fees and expenses the compounding effect of an investment manager's fees are not taken into consideration and the deduction of such fees would have a significant impact on the returns the greater the time period and as such the value of the \$1MM if calculated on a net basis, would be significantly lower than shown in this example. Dollar Distributions after Year 1 indexed to the specified inflation level. We acknowledge this simulation is not a perfect representation of future results, we are drawing repeatedly from 18 years of data (1997–2014) so results are subject to historical biases. As a result we also acknowledge that investors should not place emphasis on only median or bottom quartile outcomes, but instead should consider the distributions of potential outcomes to temper historical biases. The simulated returns were created with the benefit of hindsight. "Low Volatility" portfolio is composed of 55% Global Equity and 45% Global Fixed Income. "Mid Volatility" portfolio is composed of 70% Global Equity and 30% Global Fixed Income. "High Volatility" portfolio is composed of 85% Global Equity and 15% Global Fixed Income. Global Equity is represented by the MSCI World Gross Return, Global Aggregate Fixed Income is represented by the Barclays Global Aggregate Total Return Index Value Hedged USD. Distributions reflect one million repetitions of hypothetical 30-year monthly returns, randomly sampled from monthly data from Jan 1997 to Dec 2014. Simulated performance results do not reflect actual trading and have inherent limitations. Please see additional disclosures. Any changes will have an impact on the hypothetical historical performance results, which could be material. Hypothetical performance results have many inherent limitations and no representation is being made that any investor will, or is likely to achieve, performance similar to that shown. In fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently achieved. "Low Volatility", "Mid Volatility", and "High Volatility" portfolios composed as defined at the end of this article. Returns and volatilities for each portfolio represent the underlying indices blended at their respective weights. **Past performance does not guarantee future results, which may vary.**

Conclusion

In our view, conservative, income-oriented investors need to rethink how they will source their income as they face the potential for a lower-return environment. (1) Amid low rates, investors can expand the opportunity set to consider non-traditional asset classes. (2) Given rich equity and bond valuations, we believe investors should avoid overreaching for yield, and should seek to manage the drivers of income and return actively. (3) To address riskier markets, we believe investors should seek to reduce portfolio volatility, which may help their assets last longer and increase potential income generation.

Views are as of 10/23/2015 and subject to change in the future.

Index Definitions

The **Barclay's U.S. Aggregate Index** represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

The **S&P 500 Index** is an index based on the prices of the securities of 500 different companies, 400 of which are industrial, 40 of which are utility, 40 of which are financial and 20 of which are transportation companies.

The **Alerian MLP Index** is a composite of the 50 most prominent energy MLPs calculated by Standards & Poor's using a float-adjusted market capitalization methodology. "Alerian MLP Index", "Alerian MLP Total Return Index", "AMZ" and "AMZX" are trademarks of Alerian and their use is granted under a license from Alerian.

The **Russell US Large Cap High Dividend Yield Total Return Index** includes securities in the Russell 1000 Index with high dividend yields and quality characteristics such as dividend growth, earnings stability and sustained profitability.

The **S&P 500 Dividend Aristocrats Total Return Index** measure the performance S&P 500 companies that have increased dividends every year for the last 25 consecutive years. The Index treats each constituent as a distinct investment opportunity without regard to its size by equally weighting each company.

The **MSCI EAFE Index** (unhedged) is a market capitalization-weighted composite of securities in 21 developed markets. The Index is unmanaged and the figures for the Index do not include any deduction for fees, expenses or taxes. It is not possible to invest directly in an unmanaged index.

The **Wilshire Real Estate Securities Index** is an unmanaged index of publicly traded REITs and real estate operating companies. The Index is unmanaged and the figures for the Index do not include any deduction for fees, expenses or taxes. It is not possible to invest directly in an unmanaged index.

The **Dow Jones U.S. Select Real Estate Securities Index** (RESI) represents equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded in the U.S.

The **J.P. Morgan Emerging Markets Bond Index Global** (EMBI Global) is an unmanaged market capitalization Index that tracks total returns for U.S. dollar denominated debt instruments issued by emerging market sovereign and quasi-sovereign issuers. The index does not reflect any deduction for fees, expenses or taxes. It is not possible to invest directly in an unmanaged index.

The **Barclays Capital U.S. Corporate High Yield Bond Index 2% Issuer Capped** covers the universe of U.S. 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 is a total return performance benchmark for fixed income securities having a maximum quality rating of Ba1 (as determined by Moody's Investors Service).

The **Barclays Capital U.S. Corporate High Yield Bond Index** is a total return performance benchmark for fixed income securities having a maximum quality rating of Ba1 (as determined by Moody's Investors Service). The Index is unmanaged and the figures for the Index do not include any deduction for fees, expenses or taxes. It is not possible to invest directly in an unmanaged index.

The **Barclays U.S. High Yield Loan Index** is an unmanaged index that provides broad and comprehensive total return metrics of the universe of U.S.-dollar denominated syndicated term loans.

The **S&P/LSTA Leveraged Loan Index** is an unmanaged index of U.S. leveraged loans. The Barclay's Municipal Bond Index is an unmanaged broad-based total return index composed of approximately 40,000 investment grade, fixed rate, and tax-exempt issues, with a remaining maturity of at least one year.

The **Barclays U.S. Aggregate Total Treasury Index** includes public obligations of the U.S. Treasury.

The **Barclays U.S. Aggregate Government-Treasury-Long Index** measures the performance of government bonds issued by the US Treasury.

The **Barclays Capital US Treasury Bond 1-3 Year Term Index** measures the performance of short-term government bonds issued by the US Treasury.

The **Wells Fargo BDC Index** is a float adjusted, capitalization-weighted Index that is intended to measure the performance of all Business Development Companies that are listed on the New York Stock Exchange or NASDAQ and satisfy specified market capitalization and other eligibility requirements. To qualify as a BDC, the company must be registered with the Securities and Exchange Commission and have elected to be regulated as a BDC under the Investment Company Act of 1940.

The **S&P US Preferred Stock Index** is designed to serve the investment community's need for an investable benchmark representing the U.S. 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.

The **Russell 1000 Value Index** is an unmanaged market capitalization weighted index of the 1000 largest U.S. companies with lower-price-to-book ratios and lower forecasted growth values. The Index is unmanaged and the figures for the Index do not include any deduction for fees, expenses or taxes. It is not possible to invest directly in an unmanaged index.

The **Moody's Investors Service Covenant Quality Index** tracks the overall investor protection in covenant packages using aggregated Covenant Quality Scores. Moody's Covenant Quality Scores provide an absolute rank ordering of the level of protection that a particular bond covenant package provides compared to other bonds.

The **Barclays U.S. Aggregate Government-Treasury-Intermediate Index** is an unmanaged index considered representative of intermediate-term fixed-income obligations issued by the U.S. Treasury, government agencies, and quasi-federal corporations. The Barclays Global Aggregate Corporate Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate, taxable corporate bond market.

The **Barclays Global High-Yield Index** provides a broad-based measure of the global high-yield fixed income markets. The Global High-Yield Index represents the union of the U.S. High-Yield, Pan-European High-Yield, U.S. Emerging Markets High-Yield, and Pan-European Emerging Markets High-Yield Indices.

The **Barclays EM (USD) Aggregate Index** is a hard currency Emerging Markets debt benchmark that includes fixed and floating-rate US dollar-denominated debt issued from sovereign, quasi-sovereign, and corporate EM issuers.

The **Credit Suisse Leveraged Loan Index** is an unmanaged index of U.S. leveraged loans.

The **FTSE NAREIT All Equity REIT Index** contains all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets other than mortgages secured by real property that also meet minimum size and liquidity criteria.

The **S&P ADR Index** is constructed from the non-U.S. components of the S&P Global 1200.

The **Barclays Aggregate Index for Convertible Securities** is the U.S. Convertibles Composite (USDU), which includes all four major classes of USD equity-linked securities including: convertible cash coupon bonds, zero-coupon bonds, preferred convertibles with fixed par amounts and mandatory equity-linked securities.

Risk Considerations

Equity investments are subject to market risk, which means that the value of the securities in which it invests may go up or down in response to the prospects of individual companies, particular sectors and/or general economic conditions.

Equity securities are more volatile than bonds and subject to greater risks. Small and mid-sized company stocks involve greater risks than those customarily associated with larger companies.

An investment in real estate securities is subject to greater price volatility and the special risks associated with direct ownership of real estate.

International securities entail special risks such as currency, political, economic, and market risks.

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.

Investments in master limited partnerships ("MLPs") are subject to certain risks, including risks related to limited control and limited rights to vote, potential conflicts of interest, cash flow risks, dilution risks, limited liquidity and risks related to the general partner's right to force sales at undesirable times or prices.

High yield is represented by the Barclays Global High Yield Index. The Barclays Global High Yield Index provides a broad-based measure of the global high-yield fixed income market.

US aggregate bonds are represented by the Barclays Aggregate Bond. The Barclays Aggregate Bond Index represents an unmanaged diversified portfolio of fixed income securities, including U.S. Treasuries, investment-grade corporate bonds, and mortgage backed and asset-backed securities.

Bank loans are represented by the Credit Suisse Leveraged Loan Index. The Credit Suisse Leveraged Loan Index tracks the investable leveraged loan market by representing tradable, senior-secured, US-dollar denominated, noninvestment-grade loans.

Large cap value index is represented by the Russell 1000 Value index. The Russell 1000 Value Index is an unmanaged index of common stock prices that measures the performance of the large-cap value segment of the US equity universe. The peer group for yields is the Morningstar Large Value peer group.

Master Limited Partnerships (MLPs) are represented by the Alerian MLP Index. The Alerian MLP Index is a composite of the 50 most prominent energy MLPs calculated by Standard & Poor's using a float-adjusted market capitalization methodology.

Emerging market debt is represented by the JPM EMBI Global Composite. The JPM EMBI is an unmanaged index tracking foreign currency denominated debt instruments of 31 emerging markets.

US real estate is represented by the FTSE NAREIT COMPOSITE Index. The FTSE NAREIT COMPOSITE Index includes both price and income returns of all publicly traded REITS (equity, mortgage, and hybrid.)

Price-earnings ratio refers to a calculation that measures a company's valuation by utilizing its share price relative to its per-share earnings. The P/E ratio is calculated by dividing the market value per share from the earnings per share (EPS). Price/trend earnings, price/peak earnings, price/trailing 12-month earnings, Shiller Cyclically Adjusted Price/Earnings (CAPE), and price/10-year average earnings are five separate valuation metrics that aim to measure a company's value.

Past performance does not guarantee future results, which may vary. The value of investments and the income derived from investments will fluctuate and can go down as well as up. A loss of principal may occur.

The indices are unmanaged and the figures for the Index reflect the reinvestment of dividends, but do not include any deduction for fees, expenses or taxes. It is not possible to invest directly in an unmanaged index. The figures for the index reflect the reinvestment of dividends but do not reflect the deduction of any taxes, fees or expenses which would reduce returns.

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