

An Appraisal of Real Estate Securities

Commercial real estate investments have generated compelling returns over the past 20+ years, irrespective of how investors have accessed the asset class. Notably, real estate has outperformed both equities and bonds over long-term time frames.¹ Today, in recognition of its strong performance and unique investment attributes, real estate is a crucial component of virtually all asset allocation models.

Real estate securities (publicly traded or listed vehicles, often structured as Real Estate Investment Trusts) represent an intersection of the equities world and the private real estate world. These securities have performed particularly well over the past two decades, and now comprise roughly \$2tn in market cap globally (50% of which lies in the US). As an important part of broader equity markets, real estate has recently earned its own GICS sector classification.²

Given the continued maturity of the REIT market in terms of size, liquidity and track record, we believe a closer look at the benefits of public real estate is warranted. In this appraisal of real estate securities, we discuss our views as follows:

- **The REIT Debate: Equities or Real Estate?** Despite increasing size and recognition, public real estate has historically attracted only a small portion of investors' real estate allocations. We believe that this trend primarily stems from concerns that REITs behave more like stocks than like real estate, with respect to their higher levels of volatility and higher historical correlation to equities.
- **Leveling the Playing Field.** When assessing volatility and correlations, we believe investors should account for differences in how leverage, frequency of pricing and composition may affect reported results in the public and private markets. After adjusting for these factors, investors may find that differences in investment outcomes are less pronounced than they first appear.
- **The Case for an Allocation to Public Real Estate.** We believe REITs provide numerous benefits associated with listed securities, including daily liquidity, ease of implementation, access to non-traditional property types, extensive diversification by geography and tenant, low commitment levels, high degrees of financial transparency and relatively low fees.³

¹ Source: FactSet, NCREIF. Note: As of December 31, 2016. Real Estate = FTSE NAREIT All Equity REITs Index, NCREIF Property Index. Equities = S&P 500 Index. Bonds = Barclays US Aggregate Credit Corporate Investment Grade Index. We define the beginning of our historical dataset in 1994, after the onset of the modern Real Estate Investment Trust (REIT) era left the public market sufficiently large and liquid to meaningfully analyze. Please see Appendix for a breakdown of asset class performance and history of REITs.

² In this paper, public real estate refers to Real Estate Investment Trusts. Private real estate refers to "core" investments which target stabilized, fully leased assets. Please see Appendix for a full summary of the public real estate market and real estate investment styles.

³ Please see Appendix for comparison of fee structures in the public and private real estate markets. Note that these concepts are discussed at length later in this paper. Note that real estate investing is not suitable for all investors and are not riskless investments, so investors can lose money. Please see additional risk considerations at the end of the paper. Diversification does not protect an investor from market risk and does not ensure a profit. This material is provided for educational purposes only and should not be construed as investment advice or an offer or solicitation to buy or sell securities. Past correlations are not indicative of future correlations, which may vary. **Past performance does not guarantee future results, which may vary.**

We conclude that REITs are complementary to private real estate and that their various attributes deserve consideration when investors allocate to the asset class. We recognize the potential benefits of both public and private real estate and believe it is important to consider an investor’s size, risk/return objectives and long-term financial goals when deciding how to best allocate between the two.

The REIT Debate: Equities or Real Estate?

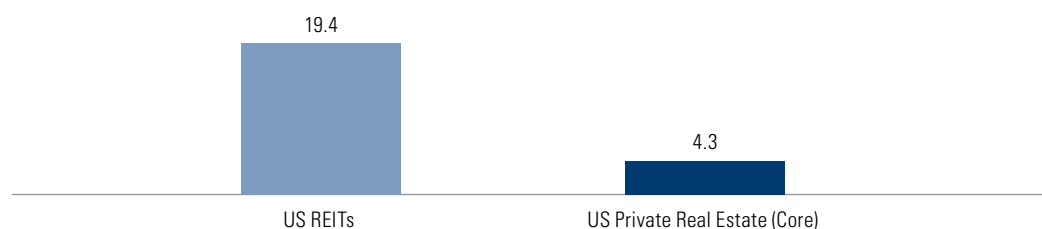
Investors seeking real estate exposure have historically preferred to invest in the asset class directly by buying properties in the private market.⁴ Advantages of the private market, including its size, familiarity and control, help explain part of this preference. However, we believe that a broader acceptance of REITs has also long been hampered by a central question: are REITs equities or real estate?

The perception that REITs are more like equities than real estate continues to be a barrier to allocation. At first glance, this perception appears to be validated by short-term data showing that REITs historically exhibit stock-like levels of volatility and high correlation to equities not found in the private market (see Exhibit 1).⁵ We believe many have drawn the conclusion that securitizing a pool of real estate assets fundamentally changes its investment attributes.

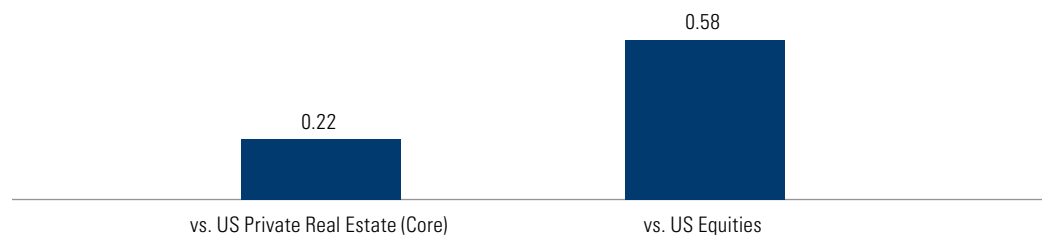
We also believe that this conclusion is misplaced and deserves closer analysis. In our view, investors must account for notable differences between the public and private real estate markets before any fair comparison can be made. We believe that after adjusting for these differences, investors may find that REITs offer investment outcomes that are 1) similar to those of direct real estate, and 2) distinct from those of broader equities.

Exhibit 1: Quarterly REIT Returns Have Historically Exhibited Stock-like Attributes

Annualized Standard Deviation, 1994–2016 (%)



US REIT Correlations, 1994–2016



Source: FactSet, NCREIF, GSAM. As of December 31, 2016. For illustrative purposes only. Note that this data does not represent any GSAM product.

⁴ Source: CEM Benchmarking. “Asset Allocation and Fund Performance of Defined Benefit Pension Funds in the United States Between 1998–2014”, June, 2016.

⁵ Source: FactSet, NCREIF, GSAM. As of December 31, 2016. Throughout the entirety of this paper, US REITs refer to the FTSE NAREIT All Equity REITs Index. US Private Real Estate (Core) refers to the NCREIF Property Index. US Equities refer to the S&P 500 Index. Past correlations are not indicative of future correlations, which may vary. Please note that one cannot invest directly in an index.

Past performance does not guarantee future results, which may vary.

Leveling the Playing Field

We believe that any fair assessment of REIT investment outcomes must account for three key differences between the public and private real estate markets:

- **Leverage:** REIT returns include leverage; private real estate data at the property level is typically reported on an unlevered basis. Levered securities are inherently more volatile, which contributes to the larger dispersion of public real estate returns.
- **Frequency of Pricing:** Public real estate is priced in real time because REITs trade as stocks on public exchanges. Investments in the private market, on the other hand, are priced less frequently via periodic appraisals.
- **Market Composition:** Nearly 50% of the public real estate universe is comprised of real estate sectors that are often not accessible in the private market. We believe that a fair comparative analysis should focus only on overlapping sectors.

In our own analysis, we account for these differences in two ways. First, we make statistical adjustments to normalize the public and private datasets and allow for a more “apples to apples” comparison. Second, we focus on longer time frames, consistent with typical real estate investment horizons. Post-adjustment, we find that REIT volatility and correlations resemble those of private real estate more closely than those of equities.

With respect to volatility, we acknowledge that sentiment-driven market swings can cause REIT prices to deviate from fundamental value in the short term. In turn, this volatility (as measured by standard deviation) creates the perception that REITs are inherently riskier than their underlying real estate assets would suggest. However, other measures of risk—such as maximum drawdown—tell a different story. Historically, REITs have experienced larger selloffs than private real estate over short-term periods of distress. Over longer timeframes, however, the difference in maximum drawdown between REIT and private real estate rolling returns narrows significantly (see Exhibit 2).⁶ Said differently, investors assume similar capital risk over a 10-year period, whether they invest in REITs or private real estate.

We also find that asset correlations look dramatically different over longer time horizons. While short-term REIT returns are highly correlated to equities and relatively uncorrelated to private real estate, longer-term data indicates a reversal of these relationships. The long-term correlation to private real estate strengthens further when we layer in statistical adjustments for differences in leverage, frequency of pricing and composition (see Exhibit 3).⁷

Our findings are consistent with a 2005 seminal academic study by Joseph, L. Pagliari, Kevin A. Scherer and Richard T. Monopoli. After making statistical adjustments to account for the three key differences above, Pagliari et. al. found no statistically significant discrepancy between long-term risk/return profiles in the two markets. In their words, the results “suggest a seamless real estate market in which public and private-market vehicles display a long-run synchronicity.”⁸ Said differently, REITs behave like real estate over the long term.

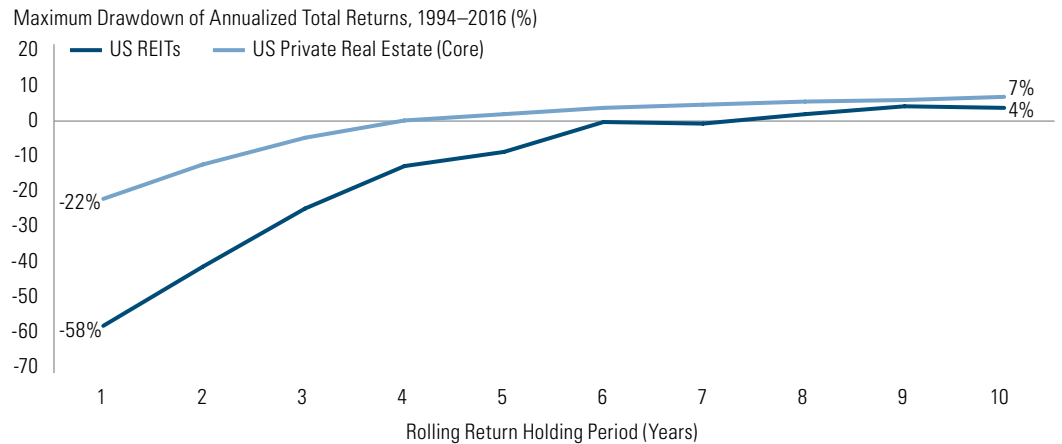
We believe these findings confirm our view that an investment in REITs mimics direct real estate exposure over the long run. We believe the recent GICS reclassification of real estate as its own sector is an acknowledgement of this view, and may arguably lead to REITs trading even more like real estate as the public market continues to evolve.

⁶ Maximum drawdown measures the minimum return experienced over a specified series of rolling returns. The lowest return was plotted for each series of rolling returns with holding periods 1 through 10 years. For example, the lowest one year rolling return equaled -58% for US REITs and -22% for US Private Real Estate (Core). The lowest 10-year rolling return equaled 4% for US REITs and 7% for US Private Real Estate (Core).

⁷ Source: FactSet, NCREIF, GSAM. As of December 31, 2016. Please see Appendix for detailed explanation of adjustment methodologies. Past correlations are not indicative of future correlations, which may vary. Please note that one cannot invest directly in an index. **Past performance does not guarantee future results, which may vary.**

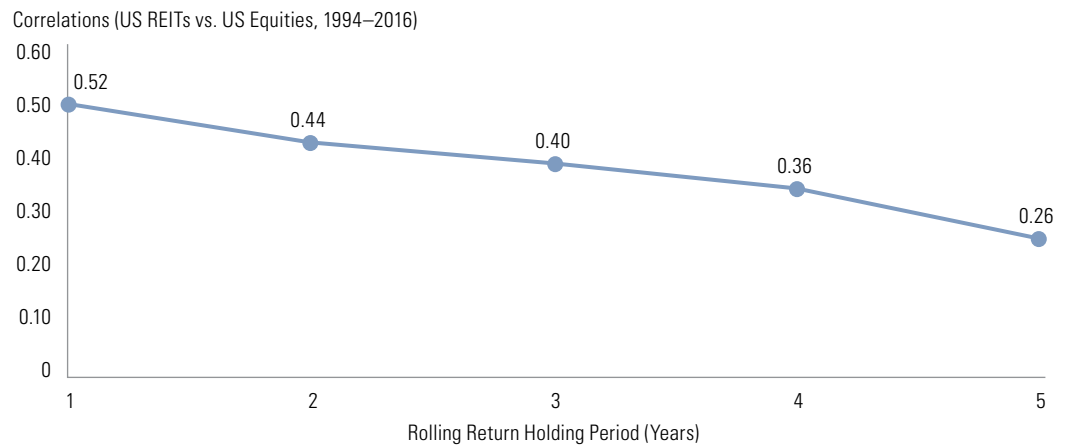
⁸ Source: Joseph Pagliari, Jr., Kevin A. Scherer, and Richard T. Monopoli, “Public Versus Private Real Estate Equities: A More Refined, Long-term Comparison”, 2005. Goldman Sachs does not provide accounting, tax or legal advice. Please see additional disclosures at the end of this presentation.

Exhibit 2: Maximum Drawdown Risk of REIT Returns Decreases Over Longer Time Periods

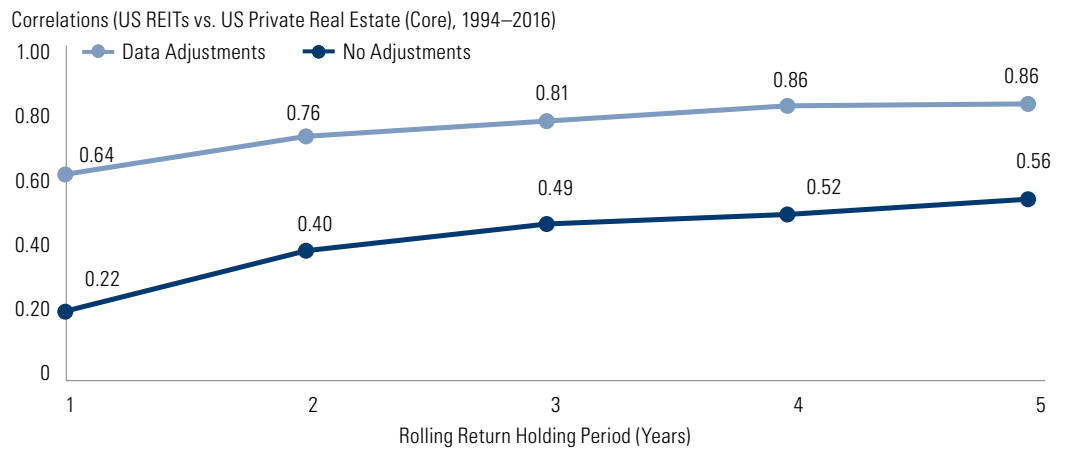


Source: GSAM, FactSet, and NCREIF. As of December 31, 2016. For illustrative purposes only. Note that this data does not represent any GSAM product.

Exhibit 3: Similarly, REITs Become Less Correlated to Equities and More Correlated to Private Real Estate Over Longer Time Periods



Source: FactSet. As of December 31, 2016. For illustrative purposes only. Note that this data does not represent any GSAM product.



Source: GSAM, FactSet, and NCREIF. As of December 31, 2016. For illustrative purposes only. Note that this data does not represent any GSAM product.

The Case for an Allocation to Public Real Estate

If public and private real estate offer exposure to similar underlying cash flows, allocation decisions for long-term investors should depend on the investment attributes specific to each implementation option (see Exhibit 4). Investors who value investment control, low short-term volatility and low short-term correlation to equities may look to the private market for real estate investments.⁹ For those seeking high liquidity and ease of implementation, access to a broad mix of property types, extensive diversification across geographies and tenants at all commitment levels, high financial transparency and relatively low fees, we believe the public market is the suitable option.

- **Liquidity and Ease of Implementation:** REITs offer daily liquidity, which allows public real estate investors to size positions quickly and easily. This liquidity enables investors to opportunistically increase or decrease exposure to different sectors, geographies or management teams as market conditions evolve.
- **Access to Non-traditional Property Types:** Many growing real estate sectors such as cell towers, data centers, Class A regional malls and self-storage are accessible primarily through the public market (see Exhibit 5).
- **Diversification at Any Commitment Level:** The public market offers an easy way to gain diversified exposure to many real estate properties for investments of all sizes. At any commitment level, an investor can establish partial ownership of many REITs, such that idiosyncratic risk of each property is reduced (see Exhibit 6).
- **Financial Transparency:** Like all public companies registered with the Securities and Exchange Commission, REITs are required to regularly file public financial statements, which allow investors to easily assess key fundamental metrics such as leverage, occupancy, lease terms, fees and management compensation.
- **Low Cost:** Investing in REITs typically means buying into an existing pool of assets which may be perpetually owned by those REITs. Since transaction costs have already been paid by the REIT sponsors, brokerage and legal fees are not borne by investors. Additionally, REIT sponsors do not charge performance-based incentive fees. In the private world, similar fee dynamics exist for open-end core/core-plus funds, but fees may run higher for closed-end and/or opportunistic strategies, as well as for non-traded REITs.¹⁰

For investors seeking real estate exposure, we believe that REITs offer the best of both worlds: real estate assets with equity-like implementation attributes. Given this attractive blend, we believe that REITs deserve closer consideration when investors make asset allocation decisions in the context of a broadly diversified portfolio.

⁹ Private real estate investments may provide investors with greater control because it allows them to be highly prescriptive with respect to style, property type and geography. For example, an investor may choose to exclusively target fully stabilized New York City grade A office buildings in Midtown Manhattan. By contrast, investors in public real estate relinquish full management control to REIT sponsors.

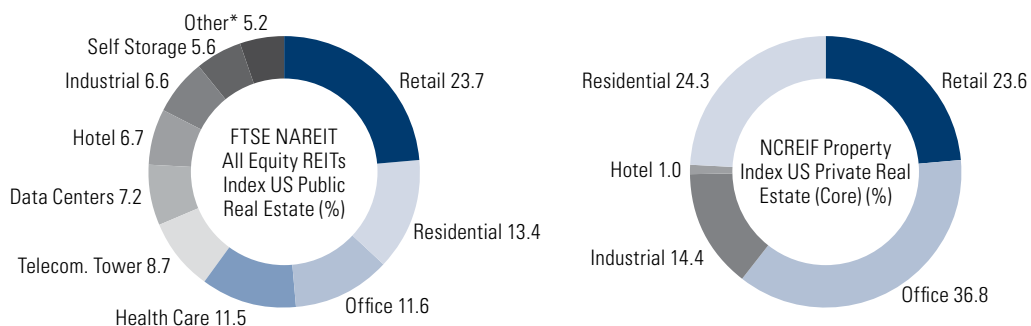
¹⁰ The real estate assets owned by REITs tend to be held for indefinite periods of time once they have been acquired. While REITs may occasionally sell select assets to monetize gains or strategically realign their portfolios, it is more customary for REITs to re-invest in existing properties over time in order to increase value. Please see Appendix for additional details.

Exhibit 4: Characteristics to Consider

Potential Considerations	Public (Listed)	Private
Liquidity	Higher	Lower
Access to Non-traditional Property Types	Higher	Lower
Diversification at Any Commitment Level	Higher	Lower
Minimum Investment	Lower	Higher
Fees	Lower	May be Higher (depending on style and/or vehicle type)
Control	Lower	Higher
Scope of Style	Narrower: Core/Core Plus	Wider: Core to Opportunistic
Volatility	Higher	Lower
Correlation to Traditional Asset Classes	Higher	Lower

Source: GSAM. As of December 31, 2016. For illustrative purposes only.

Exhibit 5: REITs Typically Offer More Exposure to Non-traditional Properties

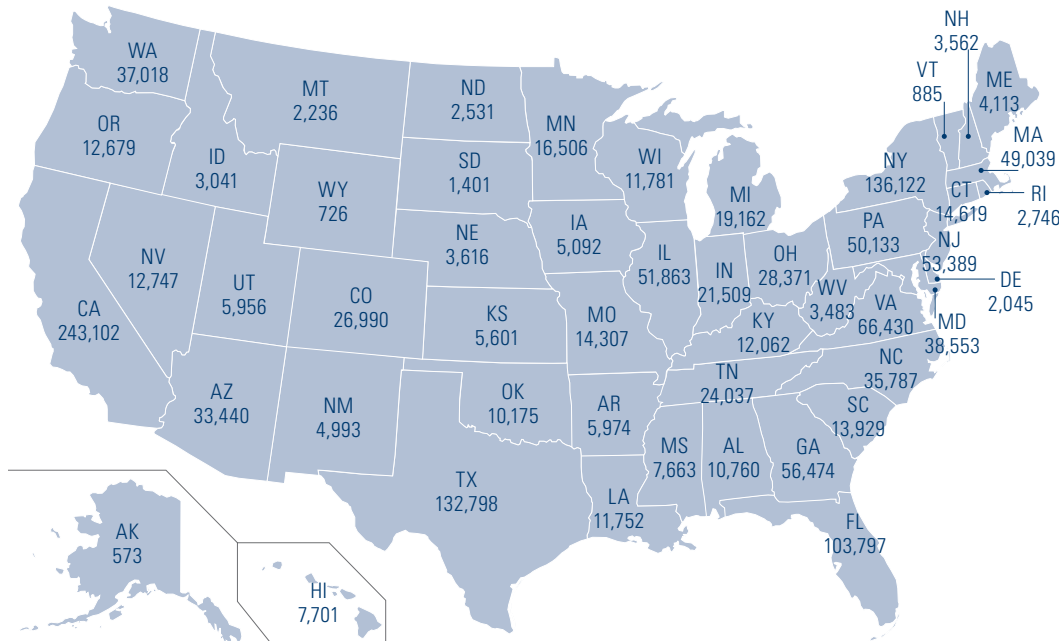


*Other includes Diversified, Timber, Specialty, Farmland, Billboard and Infrastructure REITs.

Source: GSAM, FactSet, NCREIF. As of December 31, 2016. For illustrative purposes only. Note that this data does not represent any GSAM product.

Exhibit 6: REITs May Provide Diversified Geographic Exposure at Any Capital Commitment

Total Gross Asset Value of REIT Owned Properties by State (\$mm)



Source: NAREIT. As of December 31, 2015. Numbers represent the estimated dollar value (\$mm) of REIT owned properties in each US state. For illustrative purposes only. Note that this data does not represent any GSAM product.

Conclusion

While historically, many investors have focused their real estate investment activities on the private market, with the rise of the modern real estate trusts in the mid-1990s, investor interest in public real estate has risen.¹¹ However, we believe investors remain under-allocated to REITs.

Over time, we believe the performance of real estate, after adjusting for key differences, should be largely independent of the ownership structure used to make that investment. For investors who agree that public and private real estate are more similar than different, we believe implementation should depend more on the advantages and disadvantages of each structure.

In conclusion, given the potential benefits of the public market, we believe that REITs offer a compelling complement to the private market for investors seeking to access the potential benefits of real estate provide to a diversified portfolio.

¹¹ Please see Appendix for a timeline of REIT evolution.

Appendix

Understanding Public Real Estate Securities

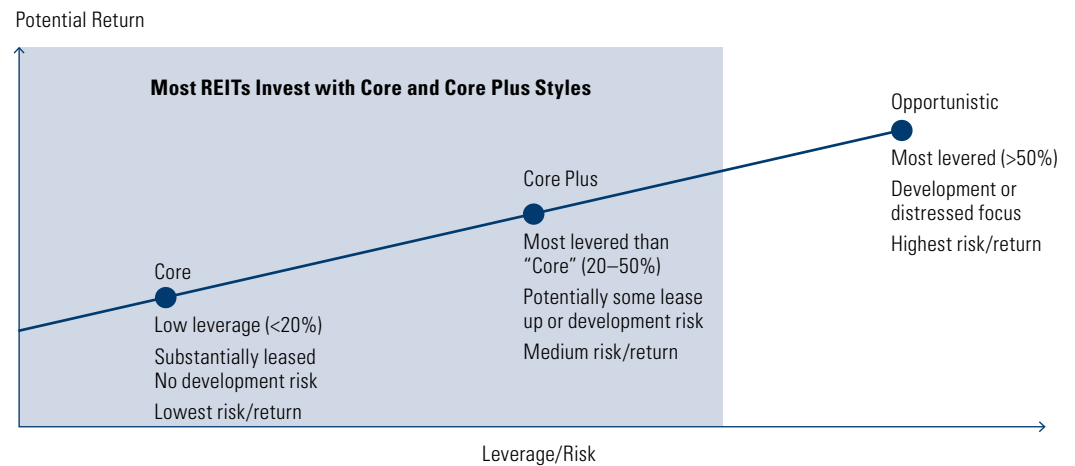
In the public market, real estate investments are made indirectly. In general, individual real estate assets do not trade on public exchanges. Instead, public real estate investors buy shares in companies that hold and manage real estate investment portfolios. While a direct private investor has a stake in one or more properties, a public investor has a stake in one or more companies which, in turn, own the properties. Although this corporate structure would ordinarily create an additional layer of taxation, the existence of the Real Estate Investment Trust (REIT) structure allows taxable investors to avoid double taxation of their real estate income. In order to be structured as a REIT, a real estate company is subject to the following restrictions, among others.

Dividends	Assets	Income	Taxable REIT Subsidiaries	Ownership
A REIT must distribute at least 90% of taxable income to investors	At least 75% of total assets must be real estate assets or cash	At least 75% of gross income must come from rents or mortgage interest	No more than 20% of assets can be in taxable REIT subsidiaries	Minimum of 100 shareholders; shares representing more than 50% of the value of the company must not be owned by five or fewer individuals

Source: GSAM

It is worth noting that a small number of companies seek to make real estate investments unconstrained by the limitations associated with REIT status. These Real Estate Operating Companies (REOCs) invest in or develop real estate, but are structured as C-corps. Real estate companies may choose to use a REOC structure for several reasons. REOCs may wish retain operating cash flows to re-invest in new opportunities. Others have more variable cash flows that make consistent dividend payments impractical.

Summary of Investment Styles



Source: GSAM. For illustrative purposes only.

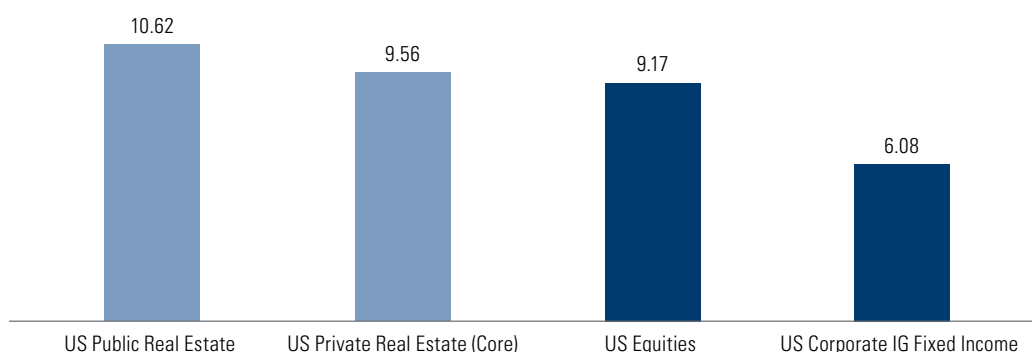
Summary of Commercial Real Estate Indices¹²

FTSE NAREIT All Equity REITs Index: The FTSE NAREIT All Equity REITs Index is a free-float adjusted, market-capitalization weighted index of US Equity REITs. The index encompasses all tax-qualified REITs with more than 50% of total assets in qualifying real estate. Although the index does not include Real Estate Operating Companies, it serves as a strong proxy for the entire public real estate universe.

NCREIF Property Index: The NCREIF Property Index is a quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only. All properties in the NPI have been acquired, at least in part, on behalf of tax-exempt investors—the great majority being pension funds. As such, all properties are held in a fiduciary environment.

Long-term Asset Class Performance:¹³

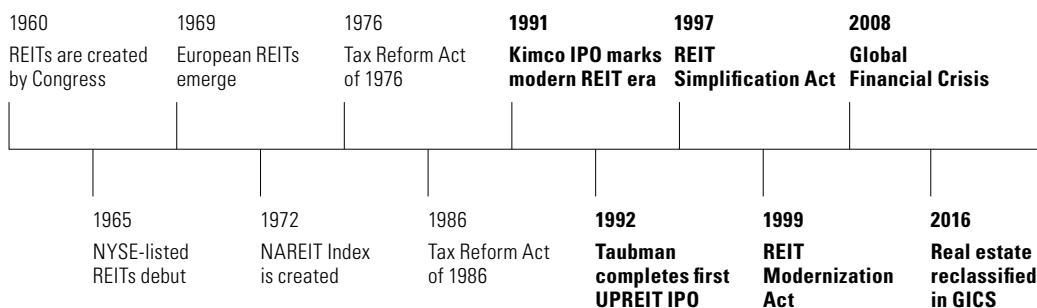
Annualized Total Returns, 1994–2016 (%)



Source: FactSet, NCREIF. As of December 31, 2016. For illustrative purposes only. Note that this data does not represent any GSAM product.

The Evolution of the REIT Industry¹⁴

The REIT industry has undergone dramatic changes since its inception in 1960. As such, historical data does not present a strong basis from which to draw broad conclusions about the asset class. The 1990s were characterized by several pivotal moments that ultimately launched what is widely considered the modern REIT era. For this reason, we restrict our analysis to the period between January 1st, 1994 and December 31st, 2016 in order to obtain meaningful information from the historical analysis.



Source: GSAM. For illustrative purposes only.

¹² Source: NCREIF.

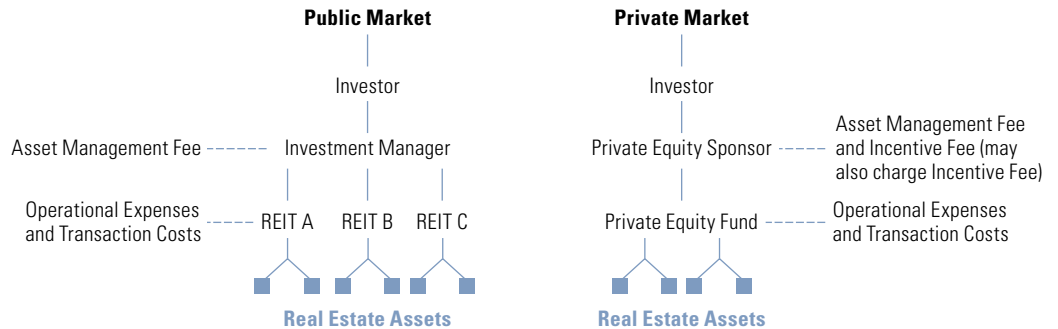
¹³ Source: FactSet, NCREIF. Note: As of December 31, 2016. US REITs = FTSE NAREIT All Equity REITs Index. US Equities = S&P 500 Index. US Corporate IG Fixed Income = Barclays US Aggregate Credit Corporate Investment Grade Index. US Private Real Estate = NCREIF Property Index. See Appendix for description of indices. Please see Appendix for a full timeline of important events in the history of REITs. Past performance does not guarantee future results, which may vary.

¹⁴ Source: NAREIT

Comparison of Typical Fee Structures¹⁵

In the public market, investors pay an investment management fee to the entity that oversees their REIT portfolio. Investors also pay a share of operational expenses and transactions costs proportional to their investments in individual REITs.

In the private market, fees vary by manager depending on style and vehicle type. Typically, investors pay a base management fee to their private equity sponsor. Private equity sponsors may also charge an incentive fee (i.e. carried interest), particularly those managing opportunistic and closed-end funds. Additionally, in closed-end funds, investors may incur transaction and legal costs as the fund purchases a collection of assets.



Source: GSAM. For illustrative purposes only.

Explanation of Adjustment Methodologies¹⁶

To enhance the comparability of public and private real estate datasets, we make three key adjustments for leverage, pricing methodologies and composition. The details of these adjustments are summarized below:

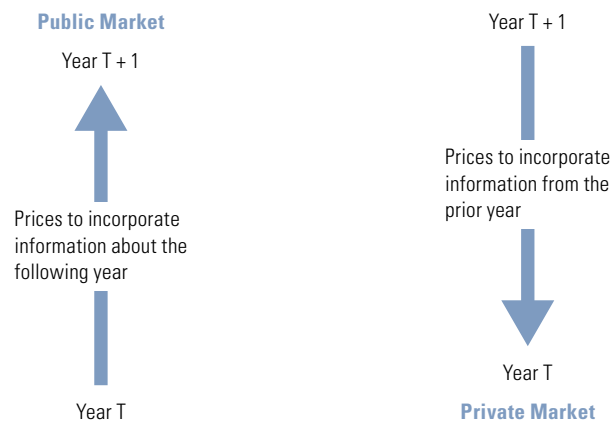
- **Composition:** Public and private real estate indices differ with respect to their compositions. In order to improve comparability, we re-weight the public index to match private index composition. Private composition was measured via annual snapshots of NPI sector exposure. These weights were then superimposed upon NAREIT quarterly subsector returns (e.g. NPI composition as of the beginning of 1994 was applied to all four quarters of 1994 NAREIT performance), creating a custom re-mixed index whose composition matched NPI's over time.
- **Leverage:** While the NPI does not incorporate leverage into its reported returns, REITs on average deploy roughly 35% leverage, as defined by Total Debt/NAV. As a result of this difference, REIT returns appear more volatile than reported NPI returns. In order to improve comparability, we assume a constant REIT leverage ratio of 35% and an average cost of borrowing of 4% between 1994 and 2016. Using the following formula, we restate the NPI returns incorporating 40% higher leverage:

$$L = (R - N * C) / (1 - N) \quad \text{where} \quad \begin{aligned} L &= \text{leveraged return} \\ R &= \text{unleveraged return} \\ C &= \text{cost of borrowing} \\ N &= \text{leverage} \end{aligned}$$

¹⁵ Source: GSAM.

¹⁶ Source: GSAM.

- Frequency of pricing: In the private real estate world, appraisal values are frequently derived by adjusting a previous appraisal upwards or downwards. As a result, appraisal values are bound by previous values and may fail to reflect true market fluctuations. Unlike composition and leverage discrepancies, however, this phenomenon is difficult to quantify. Rather than attempting to estimate this factor using sophisticated econometric techniques (as in Pagliari et. al.), we make a basic adjustment to mitigate the effect of data smoothing. To account for the fact that private market appraisals are backwards-looking while the public market incorporates information about the future, we lag public returns in order to better align the dataset. We assume that the public market is capable of efficiently reflecting available information up to four quarters into the future. Therefore, we lag the public dataset four quarters so that a year T public market return corresponds to a year T+1 private market return. While this simple adjustment does not unsmooth the private data, it realigns private data with public data.



Source: GSAM. For illustrative purposes only.

Financial Glossary

Real Estate Investment Trusts (REIT) are companies that own and/or operate income-producing commercial real estate assets. The corporate structure of a REIT exempts the company from corporate income tax if it pays a certain proportion of its taxable income to shareholders.

Private Real Estate refers to real estate assets acquired in the private market and held for investment purposes.

Securitized assets are assets that have been packaged into securities and trade on public exchanges.

Liquidity refers to the ease and facility with which an asset may be bought or sold.

Volatility refers to dispersion of asset returns. Standard Deviation, a common statistical measure of such dispersion, is defined as the square root of the variance (squared deviation of a random variable from its mean) of a data series.

Correlation measures the degree to which two securities move in relation to each other.

Leverage refers to the use of various forms of borrowed capital used to increase potential returns of an investment.

Data Smoothing refers to a phenomenon that arises when values in a data series are correlated with one another (i.e. not independent). Because values are bound by previous values, smoothed data series appear to present less volatility. In the real estate context, appraisal values are frequently derived by adjusting a previous appraisal upwards or downwards. As a result, appraisal values may fail to reflect true market fluctuations.

Risk Considerations

Real estate investments may be negatively affected by a sharp rise of interest rates. Besides a discounting effect on future income, a sharp rise of interest rates impacts REITs' funding costs and residual distributable incomes as REITs carry a certain degree of financial leverage

REITs depend on capital markets to maintain their income-generating assets and to finance their growth, and thus may be negatively affected by unfavorable capital markets.

Because REIT valuations depend on pricing signals created by local market dynamics, oversupply and/or weak demand may be negative for real estate investments.

REITs may be negatively affected by sharp deterioration of economic outlook. REIT valuations and outlooks depend on business and personal earnings growth, among other economic aspects.

REITs may be subject to changes in leverage, payout, and taxation rules and thus carry increased regulatory risk.

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Communication between Goldman Sachs AG and its clients will be in English and/or German, generally orally, in writing (including fax), by email or other electronic means. Please note, however, that orders for the purchase or sale of financial instruments must be given to Goldman Sachs AG orally unless explicitly agreed with Goldman Sachs AG otherwise.

2. CLIENT CLASSIFICATION

Based on the information available to Goldman Sachs AG, Goldman Sachs AG will categorise you as a professional client and you will benefit from those regulatory protections afforded to that category of client under the WpHG. You should be aware that professional clients will not be entitled to certain protections afforded by the WpHG to retail clients. Goldman Sachs AG will provide you with further information on client classification upon request.

3. NATURE, FREQUENCY AND TIMING OF REPORTS

Generally, Goldman Sachs AG does not execute orders, but will place them with executing brokers, including Goldman Sachs group companies. Goldman Sachs AG will not send the client a trade confirmation but Goldman Sachs AG will endeavour that the executing broker will provide the trade confirmation as soon as possible and no later than legally required.

Upon request, Goldman Sachs AG provides the client with information about the status of his order.

4. HOLDING OF FINANCIAL INSTRUMENTS AND CLIENT MONIES

Generally, Goldman Sachs AG does not hold custody over any of its clients' assets or client money. Matters of custody and client money will be dealt with by the respective custodian under its respective governing law. Further details are available on request.

However, Goldman Sachs AG is a member of the Compensation Scheme of German Banks (Entschädigungseinrichtung deutscher Banken GmbH) and the Deposit Scheme of the Association of German Banks (Einlagensicherungsfonds des Bundesverbandes deutscher Banken).

5. ORDER EXECUTION

Goldman Sachs AG has put in place arrangements that enable Goldman Sachs AG to comply with applicable requirements in relation to best execution as they apply to investment firms providing services of reception and transmission including an execution policy (the "Execution Policy") information on which is set out below.

5.1 Scope of the Execution Policy

Goldman Sachs AG's Execution Policy applies to clients of Goldman Sachs AG when Goldman Sachs AG receives and transmits orders on behalf of clients and places them with Goldman Sachs AG affiliates or third parties, in each case in respect of financial instruments covered by MiFID and the German Securities Trading Act (Wertpapierhandelsgesetz or "WpHG").

5.2 The relevant obligation

When Goldman Sachs AG receives and transmits an order on behalf of a client or places an order with another entity (including affiliates of Goldman Sachs AG) for execution Goldman Sachs AG will, subject to any specific client instructions, take all reasonable steps to obtain the best possible result taking into account the factors identified in accordance with Goldman Sachs AG's Execution Policy. In such circumstances, Goldman Sachs AG will either determine the ultimate execution venue and give the other broker or dealer a specific instruction to that effect, or Goldman Sachs AG will have satisfied itself that the other broker or dealer has arrangements in place to enable Goldman Sachs AG to comply with its best execution obligation.

When Goldman Sachs AG quotes or negotiates with a client the terms of a transaction in which an affiliate is willing to deal with such client as principal for its account, therefore the Execution Policy will not apply, unless a client requests otherwise and Goldman Sachs AG agrees to such request

5.3 Executing firms

Goldman Sachs AG includes in its Execution Policy details of the various executing firms which it accesses for each of the financial instruments covered by MiFID or WpHG in respect of which Goldman Sachs AG places or transmits orders to other entities for execution. Goldman Sachs AG includes those execution firms in its Execution Policy that it believes enable Goldman Sachs AG to obtain on a consistent basis the best possible result when placing client orders.

Goldman Sachs AG will usually transmit the orders received for execution to an executing firm for all financial instruments (including equities and fixed income instruments) to a third party or to one of Goldman Sachs AG's affiliates such as Goldman Sachs International, London, to Goldman, Sachs & Co., New York, and to Goldman Sachs Bank AG, Zurich.

5.4 Relevant factors

In circumstances where a client has been classified as a professional client, subject to any specific instructions that Goldman Sachs AG accepts from clients, Goldman Sachs AG takes into account a range of factors that allow Goldman Sachs AG to comply with its requirements in relation to best execution as they apply to investment firms providing services of reception and transmission of orders. These may include price, costs, speed, likelihood of execution and settlement, together with any other consideration relevant to the order.

In determining what is the best possible result for a client, Goldman Sachs AG does not compare the results that can be achieved for a client on the basis of its Execution Policy and fees with results that might be achieved for a client by another investment firm on the basis of that firm's execution policy or a different structure of commission or fees, nor does Goldman Sachs AG compare the differences in its own commissions or fees which are attributable to the nature of the services that Goldman Sachs AG provides to clients.

5.5 Monitoring and review

Goldman Sachs AG monitors the effectiveness of its order execution arrangements and Execution Policy on an ongoing basis to identify and implement any appropriate enhancements. In addition, Goldman Sachs AG regularly reviews whether the brokers and dealers to whom it transmits orders for execution and with whom Goldman Sachs AG may place orders provide for the best possible result for its clients on a consistent basis and whether Goldman Sachs AG needs to make changes to its execution arrangements.

Goldman Sachs AG will notify its clients of any material changes of its Execution Policy.

6. CONFLICTS OF INTEREST

Goldman Sachs AG and its European affiliates ("Goldman Sachs") offer a wide range of financial services to many clients. The broad range of services, such as investment research, investment advice, trading, asset management, corporate finance business including underwriting or selling in an offering of securities and advising on mergers and acquisitions, and the diverse group of clients and products may give rise to a number of competing interests. Goldman Sachs has established, implemented and maintains a written conflicts of interest policy which reflects its approach to managing such competing interests.

Goldman Sachs has identified circumstances with reference to specific services and activities, which may give rise to a conflict of interest entailing a material risk of damage to the interests of one or more of its clients.

To manage such conflicts Goldman Sachs has principles, procedures and measures that are designed to ensure that the services provided or activities conducted are carried out with integrity and an appropriate degree of independence to protect the interests of clients.

These principles, procedures and measures include the prevention or control of information exchange, appropriate organisational structures and supervisory roles (to prevent inappropriate influence of one person over another, or the involvement of a person where such involvement could impair the proper management of conflicts of interest), and avoiding any direct link between the remuneration of employees and revenues generated by them.

The policy provides that in certain circumstances it may be appropriate for Goldman Sachs to disclose the general nature of a conflict of interest to a client.

Further details of Goldman Sachs' conflicts of interest policy are available on request.

7. STATEMENT OF RISKS AND NATURE OF FINANCIAL INSTRUMENTS

A client should not deal in a financial instrument unless such client understands the nature and associated risk. A client should also be satisfied that the product is suitable in light of the client's investment objectives, risk affinity, other personal circumstances and the client's financial position. Goldman Sachs AG holds available the information on risks and nature of financial instruments.

8. COST AND ASSOCIATED CHARGES

The actual amounts will depend on the service provided to a client. Each client will be provided with information on applicable fees and their method of calculation in writing prior to the provision of an investment service.

If you would like additional information on Goldman Sachs AG or any of its affiliates contact your usual Goldman Sachs contact.

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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.

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