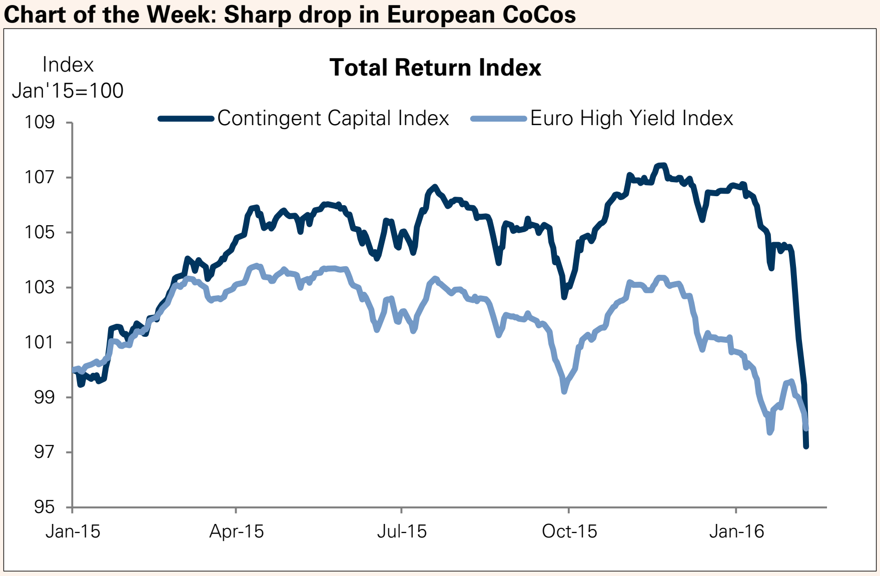
Goldman Sachs Asset Management

Global Fixed Income Weekly

Executive Summary

- As markets grapple with negative rates in Europe and Japan, questions are beginning to arise around how much room remains for further easing and whether incremental changes at this point will effectively stimulate growth. We are neutral rates in the US, the Eurozone and Japan.
- In remarks to the House Financial Services Committee, US Federal Reserve (Fed) Chair Janet Yellen acknowledged downside risks from recent turmoil in financial markets, but suggested the Fed still expects to gradually raise rates. . We do not expect the Fed to raise rates in March.
- Emerging market (EM) assets have suffered amid concerns about a protracted slowdown in China and low commodity prices. We reduced our overweight to EM but expect growth and valuations to bottom out and start to recover in 2016.

Chart of the Week: Sharp drop in European CoCos



Source: Bank of America Merrill Lynch, as of February 9, 2016.

- The chart shows the total return performance of European contingent capital (CoCos) versus high yield.
- CoCos are debt instruments issued by European banks and can be "bailed in" if the bank requires capital, based on specific triggers or at the request of the regulator. Amid concerns about European bank balance sheets, CoCos have underperformed this year after strong performance in 2015.
- We believe the recent volatility overstates the fundamental risk in CoCos and we see value in select issuers with sound balance sheets.

Market Commentary and Strategy

Duration: We are neutral in the Eurozone, the US and Japan.

- With US financial conditions at historically tight levels and inflation continuing to disappoint, we expect members of the Federal Open Markets Committee (FOMC) to begin downgrading expectations for the path of rate hikes in 2016. We do not expect a rate hike at the next FOMC meeting in March.
- In Europe, ECB President Mario Draghi defended negative interest rates, raising expectations for further ECB easing in March despite increasing sentiment among Eurozone policymakers that monetary policy is becoming less effective. In addition to cutting the deposit rate, the ECB may extend asset purchases or introduce a new Targeted Long Term Refinancing Operation (TLTRO).

Country: We are short in the US and UK and long in Australia and the Eurozone. Within the Eurozone, we are long Italy and Spain, but we have reduced our positions.

- We are long Europe versus the US, as we expect low inflation to push the ECB to ease at its next meeting.
- We decreased our long positions in Italy and Spain versus Germany. Peripheral spreads have widened year-to-date amid a global risk-off sentiment, and we are increasingly concerned that weak growth in the core of Europe could weigh on the periphery and that the ECB will not be able to provide adequate support.

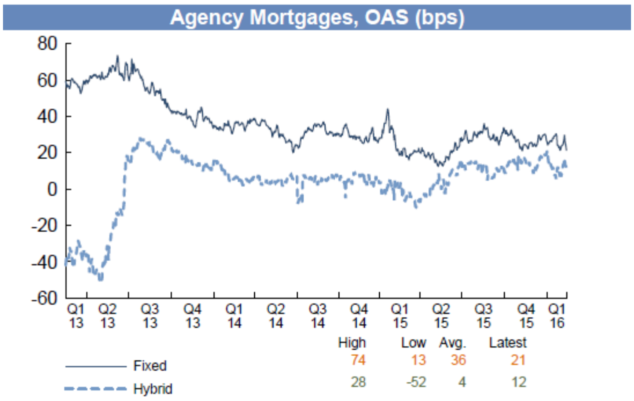
Currency: We have kept positions generally unchanged though reduced in size given elevated market volatility.

- We remain long the US dollar versus the Australian dollar and New Zealand dollar. We reduced our short in the Japanese yen, which strengthened in the wake of the BoJ's surprise interest rate cut at its last meeting.
- We are short the euro versus the British pound and Swedish krona. We believe markets are underpricing the strength of domestic growth in Sweden and overpricing the risk of the UK exiting the European Union. We reduced our short euro versus the pound amid underperformance of the position month-to-date.
- We are short the Chinese renminbi, Korean won, Taiwan dollar and Singapore dollar, which we expect to underperform amid a protracted slowdown in China. We tactically reduced our positions in the renminbi and Taiwan dollar.

Sector Strategies

Agency MBS: We are short agency mortgage-backed securities (MBS). We are modestly long in agency multi-family securities and Ginnie Mae (GNMA) mortgages versus conventional Fannie Maes (FNMAs).

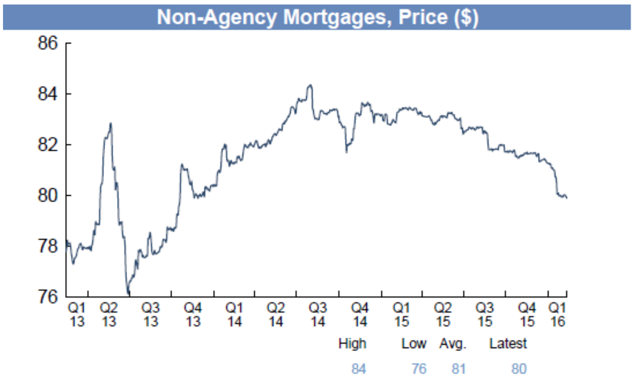
- The Federal Housing Finance Agency (FHFA) announced an Independent Dispute Resolution (IDR) program, which will allow third-party arbitrators to determine outcomes of contested repurchase demand after lenders have exhausted their appeal options, reducing risk for loan originators. We expect this policy to increase credit availability and lead conventional MBS to gain market share over GNMAs in the long run. We are long GNMA MBS versus FNMAs and long GNMA/FNMA swaps.
- We are short agency MBS, as supply continues to surprise to the upside while financing conditions deteriorate. In the recent rally, the sector has outperformed other risk assets—reaching attractive levels to enter a short position—and MBS have become more negatively convex.
- We are long higher-coupon mortgages, which are attractively valued versus lower coupons, particularly given expectations for muted prepayments and an improved carry profile for higher coupon securities.



Source: Barclays as of February 11, 2016. Option adjusted spread (OAS).

Non-Agency MBS/ABS: We are slightly overweight non-agency MBS.

- We are positive on high-quality CMBX, indexes of commercial mortgage-backed securities (CMBS) that trade similarly to other credit derivative products, as well as senior collateralized loan obligations (CLOs), which have outperformed comparable corporate issues. Both offer attractive exposure to credit spreads with limited exposure to energy and metals & mining. We have reduced positions in mezzanine CLOs, which have greater sensitivity to ratings changes in the underlying collateral.
- We also find value in asset-backed securities (ABS) backed by Federal Family Education Loan Program (FFELP) loans, which have widened in the face of potential rating agency downgrades due to shifting expectations for underlying loans repayment timelines rather than credit quality concerns.



Source: Barclays as of February 11, 2016.

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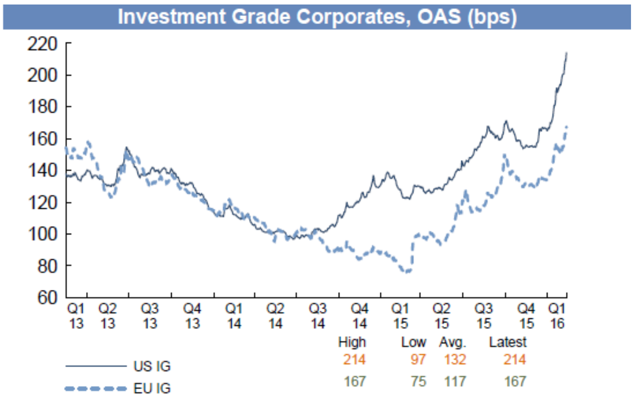
Investment Grade Corporates: We are slightly overweight investment grade corporate credit.

- US investment grade credit widened 7bps over the week, outperforming Europe, where spreads widened 10bps amid elevated concerns about European financials. In synthetics, Europe widened 21bps, underperforming the US, where spreads widened 11bps.

- US issuance of $5bn last week brought year-to-date issuance to $126bn. In Europe, issuance of $7bn-equivalent brought the year-to-date total to $43bn, down 50% versus the same period in 2015.



Source: Barclays as of February 11, 2016.

High Yield & Bank Loans: We are slightly overweight in high yield.

- High yield returned -2.15% over the week, with spreads widening 61bps. Bank loans returned -0.4%, and European high yield returned -1.45%, with spreads widening 41bps.

- High yield funds experienced $41mn in outflows last week. Loan funds saw $405mn in outflows.

- We expect pickups in downgrades and defaults this year, particularly in the energy and metals & mining sectors, and we have reduced our exposures in those sectors.

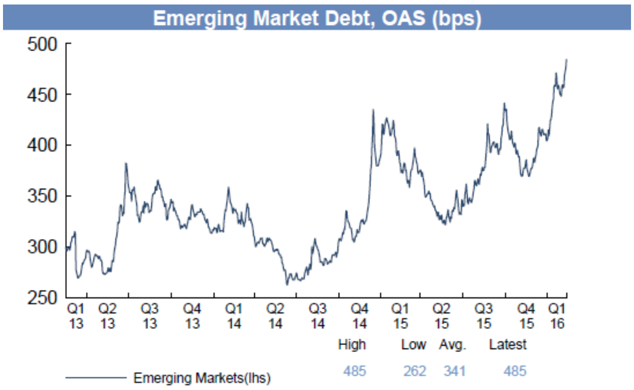
- High yield primary market activity fell last week, with four deals pricing for $3.1bn. The loan primary market priced seven loans for $6.2bn over the week.

Source: Barclays as of February 11, 2016.

Emerging Markets: We are slightly long EM debt.

- With the market particularly sensitive to concerns about a protracted slowdown in China and persistently low oil prices, we are bearish on China, Southeast Asia and the Middle East. We are long protection in China, have reduced exposure to Chinese corporates and quasi-sovereigns and are short a basket of Southeast Asian currencies. We have also trimmed exposure to Middle East quasi-sovereigns and corporates.

- We are overweight oil importers in Central America and the Caribbean, which should benefit from low oil prices and American tourism. We have added overweights in oil exporters like Colombia, which we believe is appropriately handling the downturn in oil, and Venezuela, which we expect to recover long-term.



Source: Barclays as of February 11, 2016.

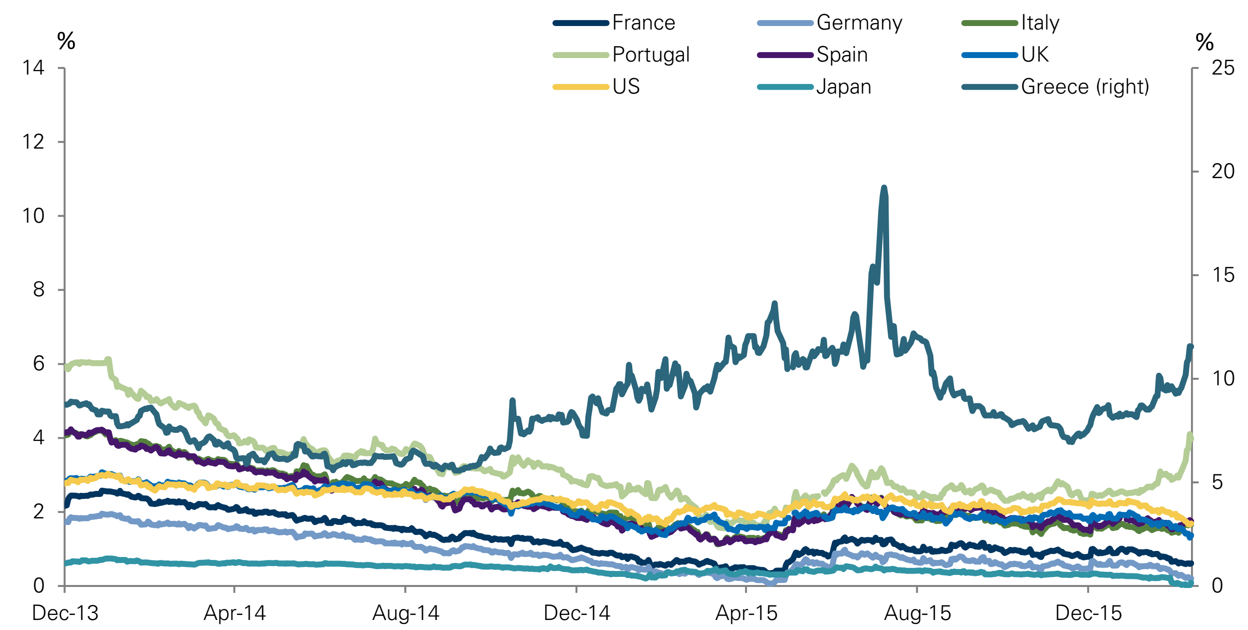
Sovereign Yield Monitor

		Current Yield to Maturity (%)			Yield Change (bps)	10 Year Yield Spreads to Germany (bps)					
		2 Year	5 Year	10 Year	1 Week Change	11-Feb-16	1 Week Change	2 Weeks Change	1 Month Change	12 Weeks Change	31-Dec-13 Change
Euro Bloc	Austria	-0.46%	-0.27%	0.52%	-5	33	7	8	10	7	-1
	Belgium	-0.45%	-0.21%	0.74%	-2	56	10	10	28	25	-7
	France	-0.44%	-0.14%	0.60%	-4	41	8	8	10	8	-22
	Germany	-0.54%	-0.33%	0.19%	-12	-	-	-	-	-	-
	Greece	15.96%	N/A	11.57%	210	1139	222	220	344	492	490
	Ireland	-0.28%	0.10%	1.04%	5	85	16	21	42	31	-73
	Italy	0.12%	0.66%	1.71%	18	153	30	42	54	49	-67
	Netherlands	-0.50%	-0.31%	0.35%	-8	16	3	4	4	-1	-14
	Portugal	1.21%	2.78%	4.11%	108	392	119	135	182	195	-28
	Spain	0.07%	0.69%	1.78%	14	159	25	37	38	38	-63
Other Europe	Norway	0.59%	N/A	1.19%	-15	-	-	-	-	-	-
	Sweden	-0.63%	-0.19%	0.41%	-14	-	-	-	-	-	-
	Switzerland	-0.98%	-0.77%	-0.29%	-3	-	-	-	-	-	-
	UK	0.31%	0.68%	1.30%	-26	-	-	-	-	-	-

		Current Yield to Maturity (%)			Yield Change (bps)	10 Year Yield Spreads to US (bps)					
		2 Year	5 Year	10 Year	1 Week	11-Feb-16	1 Week Change	2 Weeks Change	1 Month Change	12 Weeks Change	31-Dec-13 Change
Rest of the world	Australia	1.76%	1.90%	2.38%	-20	72	-2	1	5	5	-49
	Canada	0.38%	0.51%	1.02%	-13	-64	5	10	22	-1	-37
	New Zealand	2.42%	2.61%	3.01%	-12	135	6	8	8	1	-34
	United States	0.65%	1.13%	1.66%	-18	-	-	-	-	-	-
	Japan	-0.22%	-0.21%	0.02%	-4	-	-	-	-	-	-

Source: Bloomberg as of February 11, 2016.

Sovereign 10-Year Yield Levels



Source: Bloomberg as of February 11, 2016.

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Global Economic Snapshot

Global Economic View

United States

	Aug	Sep	Oct	Nov	Dec	Jan
Sentiment						
Manufacturing Conf	-	+	-	+	+	-
Consumer Conf	-	-	+	+	-	+
Business Conf	-	-	-	+	-	+
Trade						
Exports	-	+	-	-	-	..
Imports	+	-	-	-	+	..
Consumption						
Auto Sales	-	+	+	-	-	+
Retail Sales	+	-	-	+	-	..
Manufacturing						
PMI	-	-	-	-	-	o
IP	-	+	+	-	-	..
Income						
Unemployment	+	o	+	o	o	+

Europe

	Aug	Sep	Oct	Nov	Dec	Jan
Sentiment						
Manufacturing Conf	..	..	..	..	..	..
Consumer Conf	..	..	..	..	..	..
Business Conf	+	+	+	+	+	-
Trade						
Exports	-	+	+	-	..	..
Imports	-	+	+	-	..	..
Consumption						
Auto Sales	+	+	-	+	+	..
Retail Sales	+	-	-	-	+	..
Manufacturing						
PMI	+	-	o	+	+	-
IP	-	-	+	-	..	..
Income						
Unemployment	-	+	+	+	+	..

United Kingdom

	Aug	Sep	Oct	Nov	Dec	Jan
Sentiment						
Manufacturing Conf	..	..	..	..	..	..
Consumer Conf	-	-	-	-	+	-
Business Conf	+	+	-	-	+	-
Trade						
Exports	+	+	-	+	-	..
Imports	+	-	+	-	-	..
Consumption						
Auto Sales	-	+	-	+	+	-
Retail Sales	-	o	-	+	-	..
Manufacturing						
PMI	..	..	..	..	..	..
IP	+	-	+	-	-	..
Income						
Unemployment	+	+	+	+	..	..

Japan

	Aug	Sep	Oct	Nov	Dec	Jan
Sentiment						
Manufacturing Conf	-	+	+	+	-	+
Consumer Conf	+	-	+	+	+	-
Business Conf	+	-	+	+	-	-
Trade						
Exports	-	-	+	+	-	..
Imports	-	-	-	-	-	..
Consumption						
Auto Sales	+	+	+	-	+	+
Retail Sales	+	+	+	-	-	..
Manufacturing						
PMI	+	-	+	+	-	-
IP	-	+	+	-	-	..
Income						
Unemployment	-	o	+	-	o	..

Symbol	Indicator
+	Improvement
-	Deterioration
o	Unchanged
..	Not Yet Released

NOTE: The symbols above represent the direction of changes for each of the economic variables presented. A '+' sign generally indicates the level increased from the previous month. In the case of Unemployment, a '+' indicates a decrease in level from the previous month. For data that are not released with seasonal adjustments, we manually adjust the series ourselves. Manually adjusted series are Japan Manufacturing Confidence, Japan Consumer Confidence, Japan Auto Sales, Japan Retail Sales, Europe Auto Sales, UK Consumer Confidence, UK Auto Sales.
Source: Bloomberg as of February 11, 2016.

Views are as of February 12, 2016 and subject to change in the future.

Important Disclosures:

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Risk Considerations:

All investing involves some degree of risk, whether it is associated with market volatility, purchasing power or a specific security. Fixed income investing entails credit risk and interest rate risk. When interest rates rise, bond prices generally fall. Unlike stocks and bonds, U.S. Treasuries securities are guaranteed as to payment of principal and interest if held to maturity.

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.

Mortgage-related and other asset-backed securities are subject to certain additional risks. Generally, rising interest rates tend to extend the duration of fixed rate mortgage-backed securities, making them more sensitive to changes in interest rates. As a result, in a period of rising interest rates, mortgage-backed securities may exhibit additional volatility. This is known as extension risk. In addition, adjustable and fixed rate mortgage-backed securities are subject to prepayment risk. When interest rates decline, borrowers may pay off their mortgages sooner than expected.

Non-agency mortgage-backed securities typically do not have the same credit standing as U.S. government guaranteed mortgage-backed securities. Privately-issued mortgage pass-through securities generally offer a higher yield than similar securities issued by a government entity because of the absence of any direct or indirect government or agency payment guarantees. However, some mortgage-backed securities issued by private organizations may not be readily marketable, may be more difficult to value accurately and may be more volatile than similar securities issued by a government entity.

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.

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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.

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5.4 Relevant Factors

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5.5 Monitoring and Review

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