

The Benefits of Core & Satellite Portfolio Construction in an Asset Allocation Strategy

Calendar Year Returns for Key Stock Market Indices 1998-2011

Goldman Sachs

Asset Management

Through a Core and Satellite approach to portfolio construction, investors achieve their desired exposure to equity and bond markets through Core investments, such as U.S. Large Cap Equities and Fixed Income. They then pursue excess return or alpha opportunities through less correlated Satellite strategies, such as REITS, High Yield Bonds, Emerging Markets and Commodities. We believe this approach results in more efficient portfolio construction with higher return potential and increased diversification.

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
US Large Cap Stocks 27.02	Emerging Markets 66.64	Commodities 49.74	Real Estate 12.35	Commodities 32.07	Emerging Markets 56.28	International Real Estate 42.42	Emerging Markets 34.54	International Real Estate 46.36	Emerging Markets 39.78	Bonds 5.24	Emerging Markets 79.02	Real Estate 28.07	Real Estate 9.37
International Stocks 20.00	Commodities 40.92	Real Estate 31.04	Emerging Market Debt 9.70	Emerging Market Debt 13.65	International Small Cap Stocks 53.73	Real Estate 33.16	Commodities 25.55	Real Estate 35.97	Commodities 32.67	Emerging Market Debt -12.03	High Yield 58.76	US Small Cap Stocks 26.85	Bonds 7.84
International Small Cap Stocks 12.15	International Stocks 26.97	Emerging Market Debt 12.68	Bonds 8.44	Bonds 10.25	US Small Cap Stocks 47.25	International Small Cap Stocks 28.74	International Small Cap Stocks 22.10	Emerging Markets 32.59	Hedge Funds 12.56	Hedge Funds -19.07	International Small Cap Stocks 45.07	US Mid Cap Stocks 25.48	Emerging Market Debt 7.35
US Mid Cap Stocks 10.09	International Small Cap Stocks 23.51	Bonds 11.63	High Yield 5.46	International Real Estate 3.76	International Real Estate 45.10	Emerging Markets 25.95	International Real Estate 18.25	International Small Cap Stocks 29.42	International Stocks 11.17	High Yield -25.88	International Real Estate 43.97	International Small Cap Stocks 21.96	High Yield 4.96
Bonds 8.69	Hedge Funds 23.43	US Mid Cap Stocks 8.25	Hedge Funds 4.42	Real Estate 3.58	US Mid Cap Stocks 40.06	International Stocks 20.25	Real Estate 13.82	International Stocks 26.34	International Small Cap Stocks 7.32	US Small Cap Stocks -33.79	US Mid Cap Stocks 40.48	Emerging Markets 19.20	US Large Cap Stocks 1.50
High Yield 1.87	US Small Cap Stocks 21.26	International Real Estate 4.97	US Small Cap Stock 2.49	Hedge Funds 3.04	International Stocks 38.59	US Mid Cap Stocks 20.22	International Stocks 13.54	US Small Cap Stocks 18.37	Bonds 6.97	US Large Cap Stocks -37.60	International Stocks 31.78	US Large Cap Stocks 16.10	Commodities -1.18
Hedge Funds -0.36	US Large Cap Stocks 20.91	Hedge Funds 4.85	Emerging Markets -2.37	High Yield -0.24	Real Estate 36.18	US Small Cap Stocks 18.33	US Mid Cap Stocks 12.65	US Large Cap Stocks 15.46	Emerging Market Debt 6.16	Real Estate -39.20	Emerging Market Debt 29.82	International Real Estate 15.63	US Mid Cap Stocks -1.55
International Real Estate -0.68	Emerging Market Debt 19.56	US Small Cap Stocks -3.02	US Mid Cap Stocks -5.62	Emerging Markets -6.00	US Large Cap Stocks 29.89	Commodities 17.28	Emerging Market Debt 10.25	US Mid Cap Stocks 15.26	US Large Cap Stocks 5.77	US Mid Cap Stocks -41.46	Real Estate 28.46	High Yield 14.94	Hedge Funds -2.52
US Small Cap Stocks -2.55	US Mid Cap Stocks 18.23	High Yield -5.79	International Real Estate -8.77	International Small Cap Stocks -7.29	High Yield 28.78	Emerging Market Debt 11.62	Hedge Funds 7.61	Hedge Funds 13.86	US Mid Cap Stocks 5.60	International Stocks -43.38	US Large Cap Stocks 28.43	Emerging Market Debt 12.24	US Small Cap Stocks -4.18
Emerging Market Debt -8.11	International Real Estate 17.25	US Large Cap Stocks -7.79	US Large Cap Stocks -12.45	International Stocks -15.94	Emerging Market Debt 22.21	US Large Cap Stocks 11.40	US Large Cap Stocks 6.27	High Yield 10.76	High Yield 2.27	Commodities -46.49	US Small Cap Stocks 27.17	Hedge Funds 10.95	International Stocks -12.14
Real Estate -17.01	High Yield 2.39	International Small Cap Stocks -10.33	International Small Cap Stocks -15.70	US Mid Cap Stocks -16.19	Commodities 20.72	High Yield 11.14	US Small Cap Stocks 4.55	Emerging Market Debt 9.86	International Real Estate -1.08	International Small Cap Stocks -47.67	Hedge Funds 18.57	Commodities 9.03	International Small Cap Stocks -14.49
Emerging Markets -25.34	Bonds -0.82	International Stocks -14.17	International Stocks -21.44	US Small Cap Stocks -20.48	Hedge Funds 15.44	Hedge Funds 9.64	High Yield 2.76	Bonds 4.33	US Small Cap Stocks -1.57	International Real Estate -52.16	Commodities 13.48	International Stocks 7.75	International Real Estate -15.64
Commodities -35.75	Real Estate -2.58	Emerging Markets -30.71	Commodities -31.93	US Large Cap Stocks -21.65	Bonds 4.10	Bonds 4.34	Bonds 2.43	Commodities -15.09	Real Estate -17.56	Emerging Markets -53.18	Bonds 5.93	Bonds 6.54	Emerging Markets -18.17

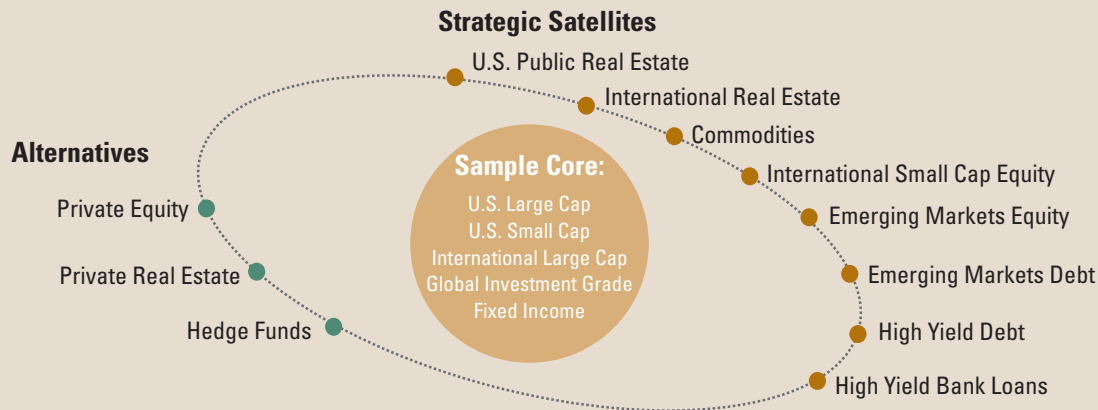
Source: Morningstar. This example is for illustrative purposes only. Past performance does not guarantee future results. Diversification does not protect an investor from market risks and does not ensure a profit.

Core & Satellite Portfolio Construction

How it Works

By using a core and satellite approach, interest rate risk and equity market risk are allocated to a portfolio's "Core," while less correlated passive and active risk are allocated to "Satellites." We believe the result is more efficient portfolio construction with higher return potential and increased diversification.

Sample Core and Satellite Investments



- US Large Cap Stocks** are represented by the Russell 1000 Index – a market-cap weighted index that measures the performance of the 1,000 largest companies in the Russell 3000 Index.
- US Mid Cap Stocks** are represented by the Russell Midcap Index – measures the performance of the 800 smallest companies in the Russell 1000 Index, which represents approximately 25% of the total market capitalization of the Russell 1000 Index.
- US Small Cap Stocks** are represented by the Russell 2000 Index – is an unmanaged index of common stock prices that measures the performance of the 2000 smallest companies in the Russell 3000 Index.
- International Stocks** are represented by the MSCI EAFE Index – a market capitalization-weighted composite of securities in 21 developed markets.
- International Small Cap Stocks** are represented by the S&P Developed Ex-U.S. Small Cap Index (formerly known as the S&P/Citigroup EMI World ex-U.S. Index) - S&P also changed the methodology to calculate the index. The S&P/Citigroup EMI World ex-US Index (Gross) covers the smallest 20% of companies, ranked by total market capitalization, which first qualify for inclusion in the country index. This includes approximately 4,610 securities from 24 developed markets with a general regional allocation of 64% Europe, 18% Japan, 11% Australasia and 7% North America.
- Emerging Markets** are represented by the the unmanaged MSCI EMF Index – a free float-adjusted market capitalization-weighted index that is designed to measure equity market performance in the global emerging markets, of over 26 emerging market countries. "Free" indicates an index that excludes shares in otherwise free markets that are not purchasable by foreigners.
- High Yield** is represented by the Barclays Capital (formerly Lehman Brothers) U.S. Corporate High Yield 2% Issuer Cap Index – an index of the 2% Issuer Cap component of the Barclays Capital (formerly Lehman Brothers) U.S. Corporate High Yield Index, which covers the U.S. dollar-denominated, non-investment grade fixed-rate, taxable corporate bond market.

- Bonds** are represented by the Barclays Capital (formerly Lehman Brothers) 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.
- Emerging Market Debt** is represented by the J.P. Morgan Emerging Markets Bond Index Global (EMBI Global) – 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.
- Real Estate** is represented by the Dow Jones Wilshire Real Estate Securities Index – an unmanaged index of publicly traded REITs and real estate operating companies.
- International Real Estate** is represented by the FTSE EPRA/NA REIT Developed ex US Real Estate Index – a market capitalization weighted index comprised of REITs and non-REITs within the international (global ex us) real estate securities market. The market capitalization for each constituent is adjusted for each constituent is adjusted for free float.
- Hedge Funds** are represented by the Credit Suisse Tremont Hedge Fund Index – an asset-weighted hedge fund index. The Index uses the Credit Suisse/Tremont database, which tracks over 5000 funds, and consists only of funds with a minimum of U.S.\$50 million under management, a 12-month track record, and audited financial statements. It is calculated and rebalanced on a monthly basis, and shown net of all performance fees and expenses.
- Commodities** are represented by the S&P GSCI Commodity Index – a composite index of commodity sector returns, representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities. Individual components qualify for inclusion in the GSCI on the basis of liquidity and are weighted by their respective world production quantities.

Diversification does not protect against market risks, and does not assume a profit.

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.

Bonds are subject to interest rate, price and credit risks. Prices tend to be inversely affected by changes in interest rates.

High yield fixed income securities are considered speculative, involve greater risk of default, and tend to be more volatile than investment grade fixed income securities.

Investments in foreign securities entail special risks such as currency, political, economic, and market risks. These risks are heightened in emerging markets.

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

Investments in commodities may be affected by changes in overall market movements, commodity index volatility, changes in interest rates or factors affecting a particular industry or commodity.

Alternative Investments such as hedge funds are subject to less regulation than other types of pooled investment vehicles such as mutual funds, may make speculative investments, may be illiquid and can involve a significant use of leverage, making them substantially riskier than the other investments. An Alternative Investment Fund may incur high fees and expenses which would offset trading profits. Alternative Investment Funds are not required to provide periodic pricing or valuation information to investors. The Manager of an Alternative Investment Fund has total investment discretion over the investments of the Fund and the use of a single advisor applying generally similar trading programs could mean a lack of diversification, and consequentially, higher risk. Investors may have limited rights with respect to their investments, including limited voting rights and participation in the management of the Fund. Alternative Investments by their nature, involve a substantial degree of risk, including the risk of total loss of an investor's capital. Fund performance can be volatile. There may be conflicts of interest between the Alternative Investment Fund and other service providers, including the investment manager and sponsor of the Alternative Investment. Similarly, interests in an Alternative Investment are highly illiquid and generally are not transferable without the consent of the sponsor, and applicable securities and tax laws will limit transfers.

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. All indices are market capitalization weighted, except for the Wilshire REIT index and the Barclays Capital Aggregate Bond Index. 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. Investors cannot invest directly in indices. **Past performance does not guarantee future results.** All the existing FTSE EPRA/NAREIT Global Indices have been renamed as FTSE EPRA/NAREIT Developed Indices effective as of March 23, 2009.

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