

Core and Satellite Portfolio Construction: Smart Satellite Options

Three primary sources of risk contribute to portfolio return — interest rate, equity market, and active.

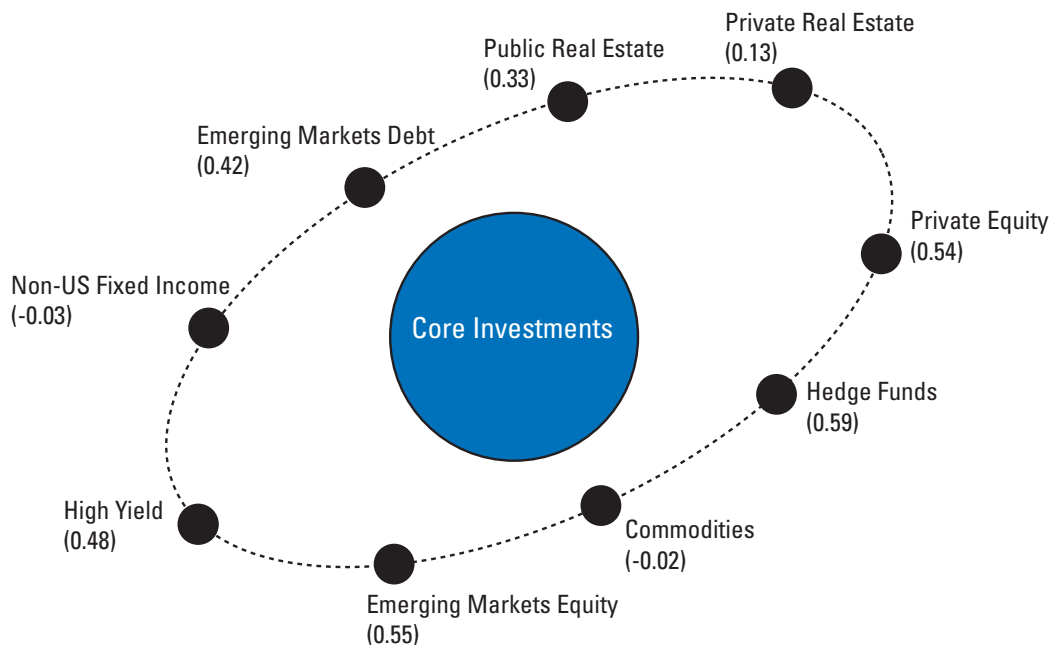
The first two — interest rate and equity market — constitute “market risk” (beta), meaning risk naturally associated with bond or stock market returns. **Active risk**, however, comes from the pursuit of non-market related return (alpha) through active, skilled portfolio management.

Through a **Core and Satellite approach to portfolio construction**, investors separate these three sources of portfolio risk to seek additional return opportunities.

Investors achieve their desired exposure to equity and bond markets through **Core investments** — typically US large cap equities and fixed income put to work through passive, structured and/or actively-managed strategies. They then pursue alpha opportunities through less correlated **Satellite strategies** such as emerging markets, high yield and/or private equity investments.

We believe the result is **more efficient portfolio construction — and higher risk-adjusted return potential.**

Sample Satellite Investments:



In parentheses behind each satellite investment above is its historical correlation to US large cap stocks. The lower the number, the less each satellite has historically moved in tandem with US large cap stocks.

How can satellite investments improve a portfolio's risk-adjusted return potential?

Because these active risk satellites are largely uncorrelated with market risk, we believe they can be added to any portfolio to increase diversification and return opportunities — without greatly impacting a portfolio's overall risk.*

Satellite Investments: A Closer Look

When selecting satellite investments, **accredited investors** may wish to explore hedge funds, which can generate attractive net return, as well as private equity funds, which involve a high level of active risk and have the ability to generate excess returns through investment in illiquid securities and start-up companies.

However, the requirements for accreditation are steep. An accredited investor is defined by the SEC as (1) an individual with an individual net worth, or joint net worth with his/her spouse, that exceeds \$1 million at the time of the purchase or (2) an individual with income exceeding \$200,000 in each of the two most recent years or joint income with a spouse exceeding \$300,000 for those years and a reasonable expectation of the same income level in the current year.

Of course, accreditation is not necessary for effective core and satellite portfolio construction. On the next page is a look at satellite investment options that are available to every investor through mutual funds.

*Diversification does not protect an investor from market risk and does not ensure a profit.

	Why Consider?	Why GSAM?
<i>Emerging Markets Equity</i>	<ul style="list-style-type: none"> ■ Access to diverse domestic demand cycles ■ Improving corporate fundamentals relative to developed markets (reduced leverage, strong cash flow, improved dividends, ROE) ■ Reduced contagion risk due to stronger sovereign fundamentals 	<p><i>Goldman Sachs Emerging Markets Equity Fund:</i></p> <ul style="list-style-type: none"> ■ A global research framework complemented by local traders (Singapore, Tokyo, London) ■ Small asset base that enables team to be nimble ■ Opportunistic Core style, with no strong Growth or Value bias vs. benchmark
<i>International Small Cap</i>	<ul style="list-style-type: none"> ■ Under-researched relative to international large cap stocks ■ Supportive trends in M&A and private activity ■ Solid fundamentals and historically strong profitability ■ Attractive source of alpha — company-specific risk dominates risk profile, not market risk — good for skilled managers 	<p><i>Goldman Sachs International Small Cap Fund:</i></p> <ul style="list-style-type: none"> ■ Bottom-up approach seeks to lock in quality companies with greater likelihood of consistently superior returns ■ All-capitalization mandate creates broader opportunity set; small and mid caps under-researched ■ Opportunistic Core style, with no strong Growth or Value bias vs. benchmark
<i>Real Estate</i>	<ul style="list-style-type: none"> ■ Attractive dividend yield potential ■ Low historical volatility and correlation to traditional asset classes ■ Combines the growth potential of equities with the yield of fixed income 	<p><i>Goldman Sachs Real Estate Securities Fund:</i></p> <ul style="list-style-type: none"> ■ A wealth of Goldman Sachs resources, including senior PMs with more than 20 years real estate experience each ■ Right-sized to market: \$2.1B in assets under management — expect to cap at \$3B ■ Generally low turnover and well-diversified, with 35-45 positions (out of universe of approx. 200)
<i>Emerging Markets Debt</i>	<ul style="list-style-type: none"> ■ Improving country fundamentals ■ Declining volatility more in line with traditional fixed income sectors ■ Structural improvement may diminish chance for major spikes in volatility ■ Strong recent returns and a favorable technical backdrop 	<p><i>Goldman Sachs Emerging Markets Debt Fund:</i></p> <ul style="list-style-type: none"> ■ An experienced global team anchored in economic research ■ A “balance sheet approach” to country selection that balances quantitative and qualitative insights ■ Consistent alpha generation that reflects full-cycle investment expertise
<i>High Yield</i>	<ul style="list-style-type: none"> ■ An established, mature asset class offering enhanced income, diversification and risk-adjusted total return ■ Increasing European issuance constitutes a truly global opportunity ■ Dramatic declines in default rates ■ Favorable supply and demand backdrop 	<p><i>Goldman Sachs High Yield Fund:</i></p> <ul style="list-style-type: none"> ■ A global approach focused on B-rated securities, the purest form of high yield ■ Long-term specialization, with Fund track record extending back to 1997 ■ Three senior team members who have been investing in European high yield securities since the mid 1980s ■ A research-intensive process that seeks to minimize default exposure
<i>High Yield Municipal</i>	<ul style="list-style-type: none"> ■ Attractive liquidity and issuance; default rates one-half that of taxable high yield market; recovery nearly two times taxable high yield market ■ Similar volatility to intermediate- duration investment grade municipal bonds ■ Tax-free current income, diversification and strong total return potential 	<p><i>Goldman Sachs High Yield Municipal Fund:</i></p> <ul style="list-style-type: none"> ■ Leading industry team that enjoys access to key underwriters and issuers ■ Opportunistic – opens and closes to new investors based on attractiveness of market ■ Below industry default rates

Historical Asset Class Correlations

	US Large Cap	US Small Cap	Intl Developed Equity	Emerging Markets Equity	US Fixed Income (Investment Grade)	US High Yield	Intl Fixed Income (Investment Grade)	Emerging Markets Debt	US Public Real Estate	US Private Real Estate	Private Equity	Hedge Funds	Commodities	Global Real Estate	Global ex-US Real Estate
US Large Cap	1.00														
US Small Cap	0.79	1.00													
International Developed Equity	0.78	0.73	1.00												
Emerging Markets Equity	0.55	0.65	0.68	1.00											
US Fixed Income (Investment Grade)	0.00	(0.06)	(0.14)	(0.09)	1.00										
US High Yield	0.48	0.54	0.44	0.46	0.20	1.00									
International Fixed Income (Investment Grade)	(0.03)	(0.08)	(0.11)	(0.13)	0.61	0.09	1.00								
Emerging Markets Debt	0.42	0.42	0.42	0.62	0.25	0.46	0.20	1.00							
US Public Real Estate	0.33	0.49	0.29	0.33	0.12	0.33	0.07	0.30	1.00						
US Private Real Estate	0.13	0.21	0.12	0.14	(0.04)	0.10	(0.02)	0.11	0.46	1.00					
Private Equity	0.54	0.46	0.53	0.37	(0.04)	0.28	(0.04)	0.25	0.19	0.08	1.00				
Hedge Funds	0.59	0.47	0.46	0.33	0.00	0.28	(0.02)	0.25	0.20	0.08	0.32	1.00			
Commodities	(0.02)	0.08	0.04	0.10	0.01	(0.03)	(0.01)	0.08	(0.05)	(0.02)	0.00	(0.01)	1.00		
Global Real Estate	0.48	0.54	0.53	0.61	0.13	0.40	0.12	0.52	0.66	0.29	0.54	0.48	0.05	1.00	
Global ex-US Real Estate	0.49	0.50	0.56	0.63	0.13	0.36	0.12	0.52	0.39	0.16	0.55	0.49	0.10	0.91	1.00

Source: GSAM Global Investment Strategies Group.

(1) All indices are hedged, with the exception of Emerging Markets Equity, Global Real Estate and Global ex-US Real Estate.

(2) All indices are passively managed, with the exception of Private Equity and Hedge Funds.

Estimates reflect the following indices: US Large Cap – S&P 500, US Small Cap – Russell 2000, International Developed Equity – MSCI EAFE, Emerging Markets Equity – MSCI Emerging (unhedged), US Fixed Income (Investment Grade) – Lehman Aggregate, US High Yield – Lehman High Yield, International Fixed Income – JPM Global Govt. Bond Index ex US (hedged), Emerging Markets Debt – JPM EMBI+, Public Real Estate – Wilshire REIT. Private Real Estate is modeled using unlevered public real estate (Wilshire REIT) and fixed income (Datastream US Total 7-10 bond index), adjusted for illiquidity. Private Equity return and risk characteristics are modeled using a beta of one against the MSCI World Index and additional return of 3% and uncorrelated residual volatility of 20%. Hedge Funds is modeled using CSFB/Tremont and Barclays CTA indices. Commodities is modeled using GSCI index (adjusted to reflect our long term assumptions), Global Real Estate – FTSE/NAREIT Global Real Estate, Global ex-US Real Estate – FTSE/NAREIT ex-US Real Estate.

All numbers reflect GSAM Global Investment Strategies strategic assumptions as of 6/30/06. Strategic long-term assumptions are subject to high levels of uncertainty regarding future economic and market factors that may affect future performance. They are hypothetical indications of a broad range of possible returns. Please see additional disclosures.

For more information, please speak with your investment professional.

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Prior to December 29, 2005 the International Small Cap Fund was named the International Growth Opportunities Fund.

The International Small Cap Fund invests primarily in small and mid-capitalization companies organized outside the United States or whose securities are principally traded outside the United States and is subject to market risk so that the value of the securities in which it invests may go up or down in response to the prospects of individual companies, particular industry sectors and/or general economic conditions. Stocks of mid and small-capitalization companies involve greater risks than those associated with larger, more established companies and may be subject to more abrupt or erratic price movements. At times, the Fund may be unable to sell certain of its portfolio securities without a substantial drop in price, if at all.

The High Yield Fund invests in high-yield, fixed-income securities that, at the time of purchase, are non-investment grade. High-yield, lower rated securities involve greater price volatility and present greater risks than higher rated fixed income securities. The Fund may also invest in foreign issuers who are denominated in currencies other than the U.S. dollar and in securities of issuers located in emerging countries denominated in any currency. The Fund's foreign and emerging market investments may be more volatile and less liquid than its investment in U.S. securities and will be subject to the risks of currency fluctuations and sudden economic or political developments. At times, the Fund may be unable to sell certain of its portfolio securities without a substantial drop in price, if at all. The Fund may also engage in foreign currency transactions for hedging purposes including cross hedging or for speculative purposes. The Fund may make substantial investments in derivative instruments, including options, financial futures, Eurodollar futures contracts, swaps, options on swaps, structured securities and other derivative investments. Derivative instruments may involve a high degree of financial risk. These risks include the risk that a small movement in the price of the underlying security or benchmark may result in a disproportionately large movement, unfavorable or favorable, in the price of the derivative instrument; risks of default by a counterparty, and the risks that transactions may not be liquid.

Investments in fixed income securities are subject to the risks associated with debt securities including credit and interest rate risk. The High Yield Municipal Fund invests in high-yield municipal securities that, at the time of purchase, are medium quality or non-investment grade. High-yield, lower rated securities involve greater price volatility and present greater risks than higher rated fixed income securities. At times, the High Yield Municipal Fund may be unable to sell certain of its portfolio securities without a substantial drop in price, if at all. The Fund may also include securities whose income is subject to the federal alternative minimum tax and state income tax. The Fund is non-diversified and may invest more of its assets in fewer issuers than diversified funds and may be more susceptible to adverse developments affecting any single issuer held in its portfolio and may be susceptible to greater losses because of these developments. The Fund may be adversely impacted by changes in tax law rates and policies, and is not suited for IRAs, and other tax-exempt or deferred accounts.

The Real Estate Securities Fund invests primarily in a diversified portfolio of equity investments in issuers related to the real estate industry, including REITs. The value of a REIT is affected by changes in the value of the properties owned by the REIT or securing mortgage loans held by the REIT. REITs and real estate companies are also subject to risks generally associated with investments in real estate including possible declines in the value of real estate, general and local economic conditions, environmental problems and changes in interest rates. The Fund is subject to greater risk of loss as a result of adverse economic, business or other developments than if its investments were diversified across different industry sectors. Securities of issuers held by the Fund may lack sufficient market liquidity to enable the Fund to sell the securities at an advantageous time or without a substantial drop in price. Because the Fund invests in issuers related to the real estate industry, its net asset value may fluctuate substantially overtime and its performance may be substantially different from the returns of the broader stock market.

The Real Estate Securities Fund may invest in foreign securities, which may be more volatile and less liquid than investment in U.S. securities and will be subject to the risks of currency fluctuations and sudden economic or political developments. At times, the Fund may be unable to sell certain of its portfolio securities without a substantial drop in price, if at all.

The Real Estate Securities Fund may participate in the Initial Public Offering (IPO) market, and a portion of the Fund's returns consequently may be attributable to its investment in IPOs. The market value of IPO shares may fluctuate considerably due to factors such as the absence of a prior public market, unseasoned trading, and the small number of shares available for trading and limited information about the issuer. When a fund's asset base is small, IPOs may have a magnified impact on the fund's performance. As a fund's assets grow, it is probable that the effect of the fund's investment in IPOs on its total returns may not be as significant, which could reduce the fund's performance.

The Emerging Market Equity and Emerging Market Debt Funds may invest in securities of issuers in countries with emerging markets or economies. Emerging markets securities are volatile, less liquid and are subject to substantial currency fluctuations and sudden economic and political developments. At times, the Funds may be unable to sell certain of their portfolio securities without a substantial drop in price, if at all.

The Emerging Markets Debt Fund's investments in fixed-income securities are subject to the risks associated with debt securities including credit and interest rate risk. The majority of the countries in which the Fund invests have sovereign ratings that are below investment grade or are unrated. High-yield, lower rated securities involve greater price volatility and present greater risks than higher rated fixed income securities. Fixed income securities of emerging countries are less liquid and are subject to greater price volatility and will be subject to the risks of currency fluctuations and sudden economic or political developments. The securities markets of emerging countries have less government regulation and are subject to less extensive accounting and financial reporting requirements than the markets of more developed countries. The Fund may also engage in foreign currency transactions for hedging purposes including cross hedging or for speculative purposes. Forward foreign currency exchange contracts are subject to the risk that the counterparty to the contract will default on its obligations. The Fund is subject to concentration risk and it may subject the Fund to greater losses than if it were less concentrated in a

particular country or region. The Fund is also subject to the risk that the issuers of sovereign debt or the government authorities that control the payment of debt may be unable or unwilling to repay principal or interest when due. The Fund may make substantial investments in derivative instruments, including, options, financial futures, Eurodollar futures contracts, swaps, option on swaps, structured securities and other derivative investments. Derivative instruments may involve a high degree of financial risk. These risks include the risk that a small movement in the price of the underlying security or benchmark may result in a disproportionately large movement, unfavorable or favorable, in the price of the derivative instrument; risks of default by a counterparty, and the risks that transactions may not be liquid.

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.

There may be conflicts of interest relating to the Alternative Investment and its service providers, including Goldman Sachs and its affiliates, who are engaged in businesses and have interests other than that of managing, distributing and otherwise providing services to the Alternative Investment. These activities and interests include potential multiple advisory, transactional and financial and other interests in securities and instruments that may be purchased or sold by the Alternative Investment, or in other investment vehicles that may purchase or sell such securities and instruments. These are considerations of which investors in the Alternative Investment should be aware. Additional information relating to these conflicts is set forth in the offering materials for the Alternative Investment.

Strategic Long Term Assumptions:

The data regarding strategic assumptions has been generated by GSAM for informational purposes. As such data is estimated and based on a number of assumptions; it is subject to significant revision and may change materially with changes in the underlying assumptions. GSAM has no obligation to provide updates or changes. The strategic long-term assumptions shown are largely based on proprietary models and do not provide any assurance as to future returns. They are not representative of how we will manage any portfolios or allocate funds to the asset classes.

A prospectus for the Fund containing more complete information may be obtained from your authorized dealer or from Goldman, Sachs & Co. by calling 1-800-526-7384. Please consider a fund's objectives, risks, and charges and expenses, and read the prospectus carefully before investing. The prospectus contains this and other information about the Fund.

