GOLDMAN SACHS ESG-ENHANCED EMERGING MARKETS SHORT DURATION BOND PORTFOLIO

Advancing Inclusive Growth and Accelerating the Climate Transition

Executive Summary

- **Effective 8th January 2021**, Goldman Sachs Asset Management ("GSAM") will apply new Environmental, Social, and Governance ("ESG") enhancements to some of its European domiciled Fixed Income Funds, including the **Goldman Sachs ESG-Enhanced Emerging Markets Short Duration Bond Portfolio** ("The Fund"). The Fund invests primarily in short duration, emerging market fixed income securities, with a focus on corporate issuers.
- We believe that ESG factors can affect the performance and risk profile of fixed income investments. As such, these enhancements can help us make better, more informed investment decisions for our clients, as well as help us to manage and mitigate risks exposures of the portfolio more effectively in order to deliver on the existing investment objective to seek **total returns consisting of income and capital appreciation**.
- The ESG enhancements will focus on a combination **of integrating ESG considerations into the fundamental investment process, activity and product-based screens, incorporation of the GSAM proprietary ESG scores as an element of portfolio construction, and setting portfolio level ESG targets.**
- GSAM Fixed Income is committed to aligning with Goldman Sachs' Firmwide Sustainability goals of Advancing Inclusive Growth and Accelerating the Climate Transition within its approach to ESG Integration and providing ESG client solutions. Goldman Sachs believes that it is imperative that the global economy generates growth that is more inclusive and accelerates the transition to a low carbon economy.

Our Approach to ESG Integration

- We recognize the importance of ESG factors and the effect these factors may have on investment performance and the risk profile of our fixed income portfolios.
- Analysis of ESG factors is embedded within our fixed income investment process in order to appropriately reflect our investment teams' views across the fixed income space.
- We believe our ESG integrated approach to fundamental research can help us make better, more informed investment decisions for our clients, as well as help us to manage and mitigate risks exposures of the portfolio more effectively.
- Our Fixed Income research analysts apply proprietary ESG ratings across the majority of our corporate credit[1]. These ESG ratings (scored 0-5 and separated into 5 categories) are applied by and the responsibility of the credit analysts. These ESG ratings are based on an internal taxonomy that identifies material ESG data and themes based on sector level weightings.

[1] We have assigned proprietary GSAM FI ESG ratings to more than 90% of the corporate and sovereign bonds under our research coverage. GSAM may invest in an asset prior to completion of the ESG rating. Instances in which ESG ratings may not be completed for a specific asset prior to investment include but are not limited to new issuance, in-kind transfers, corporate actions, and/or certain short-term holdings.

Our Approach to Engagement

- Fixed Income investors do not have access to shareholder communication channels such as proxy-voting, but as capital providers to global corporations, we communicate regularly with management teams. Given issuers access bond markets repeatedly, we are able to develop an ongoing, productive dialogue that centers on gaining insights into a company's operational performance and mitigation of risks. As such, our engagements also serve as an opening for us to encourage issuers to strengthen their ESG disclosure and performance on factors that may present credit risks. Importantly, this regular and open communication informs our 'momentum assessment,' providing a level of granularity that can strengthen or diminish our ESG and investment views.
- Our fixed income corporate credit research analysts and sovereign economists hold meetings with corporate management teams on a regular basis to share insights about ESG risks, exposures and potential investment opportunities. We assess and manage environmental and social risk with the same disciplined approach that we use when assessing all business risks. As part of prudent risk management, we stay abreast of emerging environmental and social issues and how they impact our view on valuations.
- Our engagements are tracked on our digitized research platform, Fluent. From 2021, our credit analysts will seek to deepen and expand their ESG dialogue with companies, while also advancing their reporting of engagements in Fluent, outlining specific E-, S-, or G- themes and issues discussed.

Portfolio Level Targets

- At the entity level, GSAM is keenly focused on taking steps to facilitate momentum around two primary ESG issues: **Accelerating the Climate Transition** and **Advancing Inclusive Growth.**
- In line with these Goldman Sachs Firmwide priorities and consistent with our client's feedback, the fund aims to target portfolio level ESG characteristics, including:
  1. Target a 30% **lower weighted average carbon intensity**[2] versus a representative investment universe[3]
  2. A **higher weighted average percentage of women on boards** versus a representative investment universe[3]
- These aforementioned targets will be measured at the end of each quarterly reporting period starting from the first quarter 2021.

Our Approach to ESG Screening

- The fund seeks to screen issuers that generate material revenues from certain business practices that are, in our view, inconsistent with the objectives of our ESG-Enhanced Funds.
- We have worked with many of our fixed income investors to identify the most commonly excluded activities and products from their investment policies.
- We have partnered with MSCI who will provide constituent information for each excluded activity. This issuer-level information is integrated within our portfolio management systems and our proprietary pre- and post-trade compliance system.
- Our analysis of the impact of applying our exclusion approach to the historical holdings demonstrated that the fund's investment strategy would not be materially impacted by these exclusions however the ESG goals of many investors may be met.

[2] The term 'carbon intensity' will be defined as the company's most recently reported or estimated Scope 1 and Scope 2 greenhouse gas emissions normalized by sales in USD
[3] Representative investment universe defined as the JPM 50/50 EMBI/CEMBI 1-3yr blend
Targets are subject to change and are current as of the date of this presentation. Targets are objectives and do not provide any assurance as to future results. Please see additional disclosures.

KEY SCREENS:

1. GSAM Proprietary ESG Score:

- Internal GSAM ESG scores for corporate and sovereign issuers: exclude 0-1 (“Concern”)
- Our lowest internal GSAM ESG scores typically represent less than 10% of our total coverage and we typically exclude these issuers from portfolios

2. MSCI 3rd party data:

Screen	Threshold (≥)
UNGC violators	any
Weapons	
Nuclear	10%
Biological/Chemical	Any
Cluster Munitions	Any
Blinding Laser	Any
Depleted Uranium	Any
Incendiary	Any
Landmines	Any
Non-detectable Fragments	Any
Environmental	
Thermal coal (extraction)	1%
Thermal coal (generation)	25%
Oil sands extraction	5%

Screen	Threshold (≥)
Tobacco[3]	
Production	1%
Retail	3%
Civilian Firearms	
Production	1%
Retail	3%
Automatic Weapons production	1%
Automatic Weapons retail	3%

These thresholds relate to the percent of revenue (either reported or estimated) that a company derives from the activity.

[3] *Tobacco also has a sector-based screen*

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An investor should only invest if he/she has the necessary financial resources to bear a complete loss of this investment.

Swing Pricing

Please note that the fund operates a swing pricing policy. Investors should be aware that from time to time this may result in the fund performing differently compared to the reference benchmark based solely on the effect of swing pricing rather than price developments of underlying instruments.

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