GS SUSTAIN

Crossing the Rubicon: Our investment framework for the next decade (executive summary)

Accelerating change in global industries

Companies compete against a backdrop of accelerating structural change in the global economy, society and environment. Competitive pressures in each industry are intensifying, driving increasing bifurcation between well and poorly positioned companies. GS SUSTAIN provides an objective, consistent framework linking these structural trends to investment conclusions in each industry.

Outperformance from industry leaders

Despite the rising importance of structural trends to financial performance, the equity market continues to focus on near-term earnings, and discount limited differentiation in return on capital for companies in each sector beyond three years. As a result, investing in large cap companies that are able to sustain superior returns over the long term has consistently generated outperformance, particularly over longer holding periods. In fast-growing emerging industries, we find that valuation and shareholder returns are closely linked to the growth that companies deliver.

Mature leaders offer sustainable returns

In established industries, the GS SUSTAIN framework is designed to identify the companies that are best positioned to sustain superior return on capital over the long term. Our analysis combines: (1) the returns forecasts of our global sector analysts with objective, quantifiable measures of (2) industry positioning and (3) management quality (based on environmental, social and governance factors).

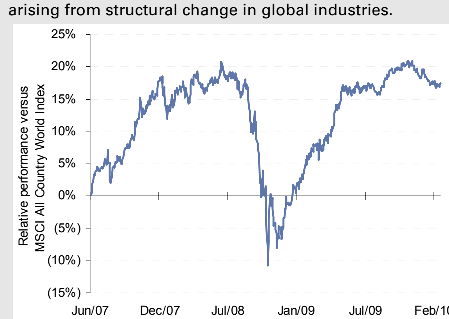
Emerging leaders offer sustained growth

In nascent, fast-growing markets, the GS SUSTAIN framework is designed to identify smaller cap companies that: (1) are exposed to structural growth trends, (2) our analysts forecast to deliver top-quintile growth relative to global coverage, (3) trade on attractive multiples relative to this growth, and (4) have strong competitive positions.

The GS SUSTAIN Focus List brings together the leaders that our analysis highlights across both mature and emerging industries.

THE GS SUSTAIN FOCUS LIST

The GS SUSTAIN Focus List is aimed at long-term, long-only performance with a low turnover of ideas. It incorporates 72 identified leaders in mature industries, which our analysis shows to be well positioned to sustain industry leadership and superior returns on capital, and 34 emerging industry leaders offering attractive exposure to growth opportunities arising from structural change in global industries.



Source: Datastream, MSCI, Goldman Sachs Research.

For related research visit the GS SUSTAIN web page: https://360.gs.com/gs/portal/research/teams/sustain/

See the Financial Advisory Disclosure section of this document for important disclosures about transactions in which The Goldman Sachs Group, Inc. or an affiliate is acting as financial advisor.

Anthony Ling, Global CIO
+44(20)7774-6776 | anthony.ling@gs.com Goldman Sachs International

Andrew Howard
+44(20)7552-5987 | andrew.howard@gs.com Goldman Sachs International

Marc Fox
(212) 934-4221 | marc.fox@gs.com Goldman Sachs & Co.

Melissa B. Epperly
+44(20)7774-5098 | melissa.epperly@gs.com Goldman Sachs International

GS SUSTAIN provides an objective, quantifiable framework linking the impacts of structural trends in the global economy, society and environment on global industries to investment conclusions on a sector-by-sector basis

Global Themes

- Significant infrastructure investment requirements
- Emerging market consumption growth
- Resource constraints
- Human capital shortages
- Media proliferation and technology disruption
- Public finances under pressure
- Increased regulation
- Debt/capital imbalances
- Rise of emerging market competition
- Rising social expectations on companies

Competitive Drivers

- Geographic market growth
- Product market growth
- End market consolidation
- Regulation
- Product innovation / obsolescence
- Pricing power
- Access to assets
- Low operating costs
- Market share and business focus

	Value Drivers	Selection Criteria				GS SUSTAIN Winners
Mature Industries	Sustainably high return on capital – a consistent driver of share price performance	Industry leading returns (based on sector analysts' forecasts)	Superior strategic positioning within one's industry	Strong management Quality (management of ESG issues)		72 leaders from over 800 companies across 22 global sectors
Emerging Industries	Sustainably high growth – the key driver for smaller companies	Advantaged exposure to structural growth themes	Top quintile growth forecast vs. the market	Prospective growth not reflected in valuation		34 leaders from >3,000 companies across 15 secular growth themes.

Source: Goldman Sachs Research.

GS SUSTAIN: Identifying opportunities in a changing world

This report summarizes the key points from a longer report, *Crossing the Rubicon: Our investment framework for the next decade*, also published today.

GS SUSTAIN research is designed to identify the companies best positioned to benefit from structural, long-term shifts in their competitive environment. The GS SUSTAIN Focus List brings together the leaders identified in both established, mature industries and fast-growing emerging industries. Mature industry leaders are large, established companies that we believe are well positioned to sustain competitive advantage and superior return on capital over the long term. Emerging industry leaders are the companies that our analysis highlights as well placed to benefit from the structural growth opportunities emerging from change in established sectors.

The GS SUSTAIN framework links key structural trends in the global economy, society and environment to industry-level impacts on competitive positioning, the emergence of new growth markets and consistent, objective measures of the key drivers of corporate performance to identify beneficiaries of these structural trends in each sector. In our view, assessing the impact of structural trends on industries is becoming more important to investment performance:

- Extrapolating past trends or focusing on cyclical exposures is becoming less valuable as competitive forces shift and the impacts of long-term structural change on corporate performance become apparent over shorter and shorter horizons.
- Aspects of corporate performance not traditionally focused on by investors, including management of environmental, social and governance (ESG) factors, are assuming increasing importance as the range of challenges that companies must address widens.
- The financial rewards for companies structurally well placed to benefit from these trends are increasing, as are the costs to those that are not.
- The equity market continues to focus disproportionately on near-term financial performance. Institutional investors' average holding periods have consistently fallen in recent decades and are now under one year in the US. Similarly, for the average company with a market capitalization of more than US$1 bn, there are five times more consensus EPS estimates for the first forecast year as for the fourth. As a result of this short-term focus, the equity market consistently discounts convergence in returns over 3-4 years, in contrast to the widening gap between leaders and laggards in each sector in recent decades.

By focusing on the longer-term competitive positioning and profitability of companies across global industries, GS SUSTAIN seeks to take advantage of this discrepancy between the market's lack of long-term differentiation and the growing impact of long-term structural trends on companies' financial performance.

- In established, mature industries, we identify the companies best positioned to sustain superior return on capital over the long term (3-5 years) through objective, quantifiable analysis of the key drivers of corporate performance: (1) return on capital, (2) industry positioning and (3) management quality with respect to ESG factors.
- In nascent emerging industries, we identify the companies best positioned to sustain growth in the top quintile of Goldman Sachs' global coverage through their exposure to structural change and dislocations in mature industries.

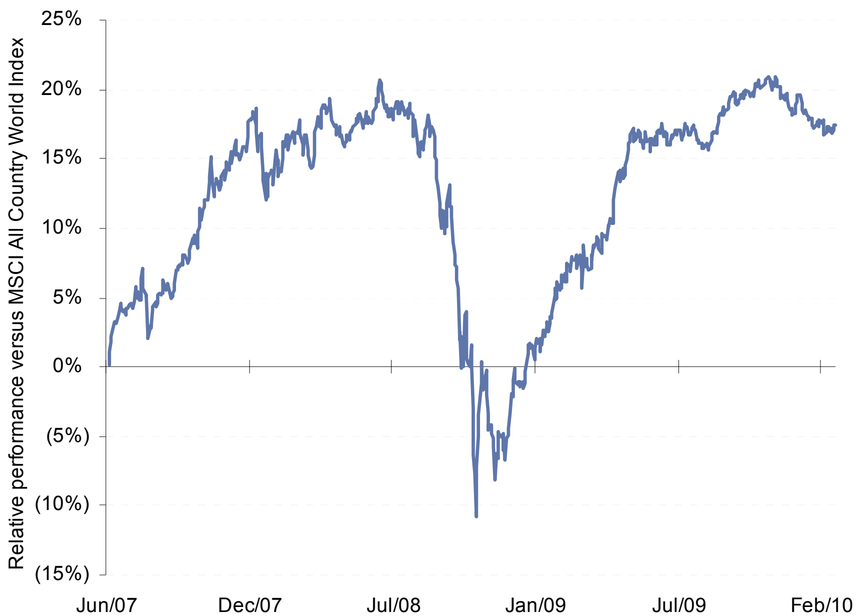
We have now applied the GS SUSTAIN framework to more than 800 large cap companies across 22 global sectors, and extended the emerging industry analysis to over 500 smaller cap companies exposed to 15 structural growth themes across Goldman Sachs' global coverage universe.

GS SUSTAIN Focus List has outperformed by 17% vs. global equities since June 2007

The GS SUSTAIN Focus List brings together the leaders identified in mature and emerging industries, and is aimed at long-term, long-only outperformance with a low turnover of ideas. Across the 22 mature industry sectors to which we have applied the GS SUSTAIN framework, 72 companies stand out as well positioned to sustain superior return on capital over the long term (Exhibit 3). Across the 15 emerging growth themes, 34 companies stand out as well placed to sustain rapid growth relative to Goldman Sachs' global coverage universe. The GS SUSTAIN Focus List was launched on June 22, 2007. Since then, mature industry leaders have outperformed the MSCI World All Country index by 34% and emerging industry leaders have outperformed that benchmark by 2% (as of February 19, 2010). Details of the performance of current and expired ideas are shown in the Appendix of the full report.

Note: We now measure the performance of the GS SUSTAIN Focus List against the MSCI World All Country Index to reflect the increasing number of emerging market-listed stocks on the list (emerging markets are not captured in the MSCI World Index, which we previously used as our measure of relative performance). The GS SUSTAIN Focus List's relative performance to date would be 2% higher if using the MSCI World.

Exhibit 1: Performance of GS SUSTAIN Focus List (equally weighted performance of mature and emerging leaders) vs. MSCI All Country World index



Note: Results presented should not and cannot be viewed as an indicator of future performance. Performance is calculated on an equally weighted basis relative to the MSCI All Country World index (market-cap-weighted total return series in US$). Full details of the performance of stocks in the GS SUSTAIN universe can be provided upon request.

Source: MSCI, Datastream, Goldman Sachs Research.

Exhibit 2: Performance of mature and emerging leaders separately (equally weighted) relative to MSCI All Country World index

Note: Results presented should not and cannot be viewed as an indicator of future performance. Performance is calculated on an equally weighted basis relative to the MSCI All Country World index (market-cap-weighted total return series in US$). Full details of the performance of stocks in the GS SUSTAIN universe can be provided upon request.

Source: MSCI, Datastream, Goldman Sachs Research.

Exhibit 3: GS SUSTAIN Focus List

	EMEA			Americas			Asia Pacific		
	Ticker	Company	Country	Ticker	Company	Country	Ticker	Company	Country
Energy	BG.L	BG	GB	HES	Hess	US	WPL.AX	Woodside	AU
	NVTKq.L	Novatek	RU	PBR	Petrobras	BR			
	TECF.PA	Technip	FR	SLB	Schlumberger	NL			
Materials	ANTO.L	Antofagasta	GB	MON	Monsanto	US			
	BLT.L	BHP Billiton	GB	POT	Potash	CA			
	JMAT.L	Johnson Matthey	GB	VALE	Vale	BR			
	NLMKq.L	Novolipetsk Steel	RU						
	SOLJ.J	Sasol	ZA						
	VLLP.PA	Vallourec	FR						
Industrials	ABBN.VX	ABB	CH	MMM	3M	US	BHEL.BO	Bharat Heavy Elect.	IN
	ATCOa.ST	Atlas Copco	SE	UTX	United Technologies	US			
	RR.L	Rolls-Royce	GB						
	VWS.CO	Vestas	DK						
Consumer Discretionary	BSY.L	BSkyB	GB	NKE	Nike	US	2331.HK	Li Ning	CN
	CFR.VX	Richemont	CH	TWX	Time Warner	US			
	HMb.ST	Hennes & Mauritz	SE						
	REL.L	Reed Elsevier	GB						
Consumer Staples	DGE.L	Diageo	GB	CL	Colgate-Palmolive	US	WOW.AX	Woolworths	AU
				KO	Coca-Cola	US			
				NATU3.SA	Natura	BR			
				WMT	Wal-Mart	US			
Health Care	NOVOb.CO	Novo Nordisk	DK	BAX	Baxter	US	MR	Mindray	CN
	ROG.VX	Roche	CH	JNJ	Johnson & Johnson	US			
	STMN.S	Straumann	CH						
Financials	ALVG.DE	Allianz	DE	BBD	Banco Bradesco	BR	AMP.AX	AMP	AU
	BBVA.MC	BBVA	ES	ITUB	Itau Unibanco	BR	NAB.AX	National Australia Bank	AU
	HSBA.L	HSBC	GB				0011.HK	Hang Seng	HK
	PRU.L	Prudential	GB				1398.HK	ICBC	CN
	RSA.L	Royal Sun Alliance	GB				2628.HK	China Life	CN
	STAN.L	Standard Chartered	GB						
Information Technology	AUTN.L	Autonomy	GB	CRM	salesforce.com	US	0700.HK	Tencent	CN
				CSCO	Cisco	US	0992.HK	Lenovo	CN
				GOOG	Google	US			
				IBM	IBM	US			
				ORCL	Oracle	US			
				QCOM	Qualcomm	US			
Telecommunications	MTNJ.J	MTN	ZA				0941.HK	China Mobile	CN
							TLS.AX	Telstra	AU
Utilities	CNA.L	Centrica	GB	EXC	Exelon	US	0836.HK	China Resources	CN
	FUM1V.HE	Fortum	FI						
	SEVI.PA	Suez Environnement	FR						
Emerging industries	CHEq.L	Cherkizovo Group	RU	LULU	lululemon athletica	US	1833.HK	Intime Department Store	CN
	DIXY.RTS	Dixy Group	RU	RSID3.SA	Rossi	BR	3818.HK	China Dongxiang Group	CN
	PFC.L	Petrofac	GB	ALXN	Alexion	US	EDU	New Oriental Education	CN
	SBOE.VI	Schoeller-Bleckmann	AT	ATHN	athenahealth, Inc.	US	8199.HK	Shandong Weigao	CN
	SMDR.L	Salamander Energy	GB	ILMN	Illumina	US	FOHE.BO	Fortis Healthcare	IN
	HSNT.L	Hansen Transmission	BE	NUVA	NuVasive	US	LUPN.BO	Lupin	IN
	MBTN.S	Meyer Burger	CH	QGEN	Qiagen, N.V.	NL	0658.HK	China High Speed	CN
	AIXGn.DE	Aixtron	DE	PWR	Quanta Services	US	IRBI.BO	IRB Infrastructure Developers	IN
	POG.L	Petropavlovsk	GB	IRF	International Rectifier	US	IVRC.BO	IVRCL	IN
	EDPR.LS	EDP Ren	ES	RAX	Rackspace Hosting	US	ASIA	AsiaInfo Holdings	CN
				IPI	Intrepid Potash	US	LFT	Longtop	CN
				ORA	Ormat	US	000422.SZ	Hubei Yihua Chemical Industry	CN

Source: Goldman Sachs Research.

Long-term structural changes driving shifting competitive power across industries

Companies across all sectors face an unprecedented scale and pace of structural change in their competitive environment. The balance of power in the global economy is rapidly shifting away from today's developed economies. Technology is advancing at a swifter pace and becoming more global. Populations are growing, aging and becoming more urban on a larger scale than ever before, and the constraints of, and impact on, the natural environment as this development accelerates are becoming increasingly evident. Understanding the impacts of these structural trends on global industries is becoming increasingly important as their influence on the financial performance of incumbent and emerging companies grows. GS SUSTAIN provides a framework linking structural trends to the changing competitive environment in each industry to identify future beneficiaries through globally consistent and objective measures.

The last decade has been one of transition. Growth in emerging economies overtook that of advanced economies, but from a relatively low base. Global trade and capital flows rose, but were largely based on the exports of low-cost goods from emerging economies. Environmental concerns shifted from niche to mainstream social issues, but have yet to become significant value drivers in most industries. And resource constraints resulted in temporary supply concerns and price increases.

Looking ahead, these trends will deepen, presenting new challenges and opportunities across global industries. GDP growth in emerging economies is pulling away from that of wealthier countries, from a higher dollar level of output. Huge proportions of the global population are entering consumer classes for the first time. Resource shortages are evidenced in rising production costs, and regulation in advanced economies is having an increasing impact on financial performance.

- Shrinking labour forces relative to dependent populations in advanced economies are quickly becoming an increasing economic burden. On current demographic trends, the number of people outside working age (15-65) will rise by over 20% across the G7 countries by 2030.
- Our economists expect the combined GDP of the BRICs economies to overtake that of the G7 by 2035.
- We expect 1.6 bn additional consumers earning over US$6,000 pa to emerge over the next decade – roughly twice as many as in the last decade – of whom 95% will live outside the G7 economies.
- Debt levels in many developed economies have risen to multi-decade highs, and government expenditure has risen to over 40% of GDP in the G7 countries, more than twice the level of the BRICs, on average.
- Our analysis of the resources required to meet rising consumption and infrastructure investment implies that known reserves of many major commodities will be unable to meet demand for more than 20 years without resulting in significantly higher prices. If global greenhouse gas emissions continue on their current path, they could push atmospheric concentrations to levels that the IPCC believes will result in a 2 degree Celsius temperature increase by 2030.

Furthermore, social expectations placed on companies are growing, leading to new pressures and widening the issues that must be addressed to sustain industry leadership. Effective management of customers, employees, local communities, host governments and other stakeholders has long been important to operational sustainability and is becoming more so as the corporate world's role in many societies increases. Recognizing this shift in social and environmental pressures, the expectations of investors on companies to address these issues and report on performance are rising. Since its launch in 2006, the number of signatories to the UN Principles for Responsible Investment has risen tenfold from 65 to 689 and their combined assets under management have reached over US$21 trillion. In the last 12 months alone, signatories with US$3 trillion in assets have joined this initiative.

Long-term demographic, economic, technological and environmental trends underpin structural shifts across global industries. Exhibit 4 highlights the trends on which we focus, informing our assessment of sustainable competitive advantage for companies in each sector.

Exhibit 4: Long-term structural trends and their impact on global industries

Long-term macro trends …	
Social pressures	Population aging and rising dependency ratios in developed economies
	Population growth, urbanisation and rising education levels in emerging economies
Economic realignment	Shift of economic power to emerging economies at an accelerating rate
	Unwinding of imbalances in global capital flows and debt levels
Technological advance	Accelerating pace of global technological advance
	Increased global access to information and communication technologies
Globalization	Integration of global trade and capital markets
	Increased mobility of people and ideas
Environmental tensions	Tightening resource supplies in many markets
	Environmental impacts of growing resource consumption becoming increasingly apparent

… drive structural change in global industries	
Significant infrastructure investment requirements	Infrastructure levels in emerging economies remain a fraction of developed market levels, requiring significant new investment. Over half of the power and water infrastructure that will exist in China by 2020 has not yet been built.
Emerging market consumption growth	Accelerating economic expansion and population growth in emerging economies could result in 1 bn new middle-class consumers (income over US$6,000 per person) over the next decade, twice as many as were added in the last decade.
Resource constraints – food, feed and fuel	Known reserve lives of every major mineral are declining and marginal growth is becoming increasingly expensive and risky. Agricultural yields must increase by over 40% to meet projected food demand to 2020, which will also place increasing pressure on water availability in many regions
Human capital shortages	Salaries and compensation costs are a rising percentage of total costs and wages are rising in the most human capital intensive industries. Multinational companies are able to access only a minority of emerging market graduates.
Media proliferation and technology disruption	Communication technologies have become ubiquitous, creating new challenges in effectively maintaining strong brands. Technology cycles continue to compress and traditionally disparate technologies converge as new markets are created through invention.
Public finances under pressure – healthcare, pensions & tax reform	Public sector debt levels have reached post-war highs in developed economies as government spending has grown relative to economic output. Population aging and shrinking productive workforces will intensify the resulting fiscal challenges, pressuring government spending and tax rates.
Increased regulation	Governments are being given a mandate to regulate; a rising proportion of the population of most countries believes governments should take a more active regulatory role. Regulation has begun to increase in many industries, potentially limiting business flexibility and introducing new costs.
Debt / capital imbalances across developed & emerging economies	Total debt has reached a record level, relative to the GDP of developed economies. The capital flows from emerging to developed economies that have facilitated this growth will not continue at the same level as prior to the financial crisis, making capital increasingly scarce and driving up its cost.
Rise of emerging market competition	The share of G7 economies' stock markets in the global total has fallen to under 70%, from over 90% in 2000. Across most industries, BRICs companies are under-represented relative to their share of global demand. With higher margins than the global average and increasing international investment, they are becoming increasingly globally competitive.
Rising expectations on companies to play a socially beneficial role	Communication technologies have become ubiquitous, creating new challenges in effectively maintaining strong brands. Technology cycles continue to compress and traditionally disparate technologies converge as new markets are created through invention.

Source: Goldman Sachs Research.

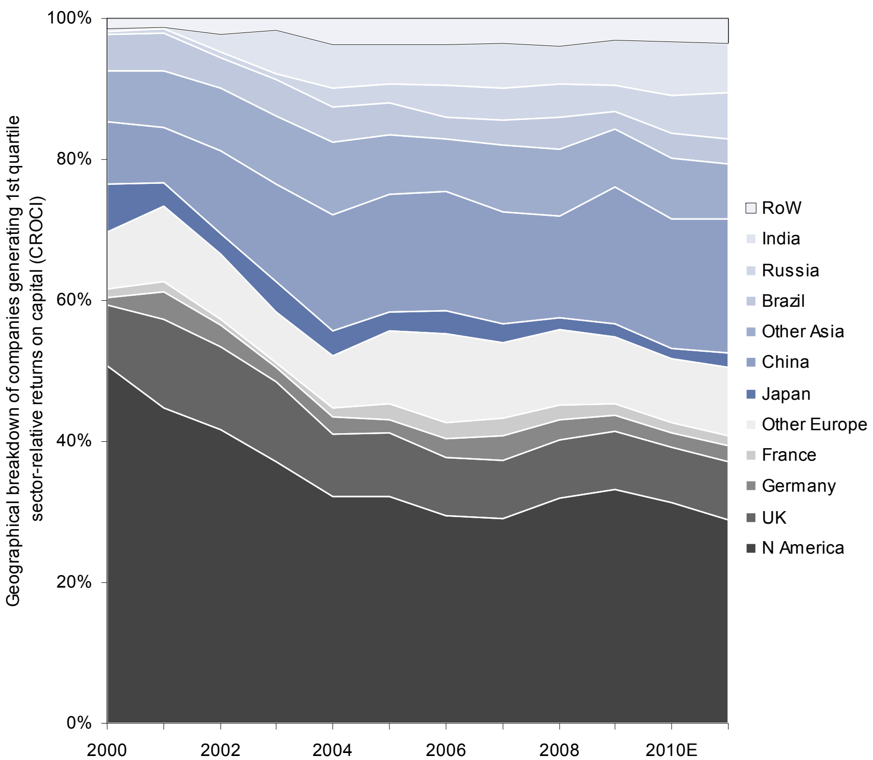
Global equity benchmarks do not reflect sources of future outperformance

Mature industry leaders, which represent over 90% of the total market capitalization of the GS SUSTAIN Focus List, are the companies that our analysis shows to be best positioned to sustain industry-leading return on capital over the long term – which our back-testing in turn shows to be the key driver of equity market returns over holding periods greater than one year.

Since 2000, the proportion of companies with first-quartile return on capital (relative to their global sector peers) listed in the US has fallen from over half to close to one quarter. Other developed economies' shares have been relatively stable, and the proportion of global leaders listed in emerging economies has risen significantly; close to half of all companies with first-quartile sector-relative return on capital are now listed outside G7 countries (Exhibit 5). Global equity benchmarks – based on the share of different countries in global market capitalization – reflect historical demand patterns and significantly understate the importance of emerging economies to current and future economic output, or to industry leadership on return on capital (Exhibit 6).

Exhibit 5: An increasing proportion of industry leaders are domiciled in emerging economies; the US share is declining

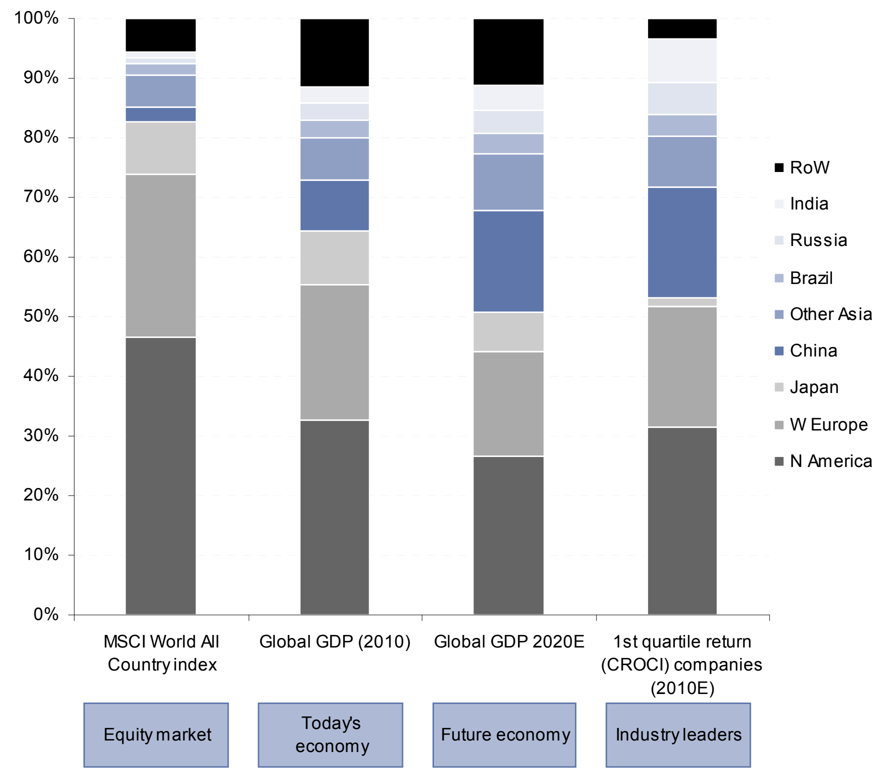
Geographic distribution of companies with first-quartile sector-relative CROCI by domicile, across Goldman Sachs' coverage



Source: Quantum database, Goldman Sachs Global ECS Research.

Exhibit 6: Global equity market benchmarks do not reflect current or future economic output or industry leadership

Geographic distribution of MSCI All Country World Index, GDP and companies with first-quartile CROCI across Goldman Sachs' coverage



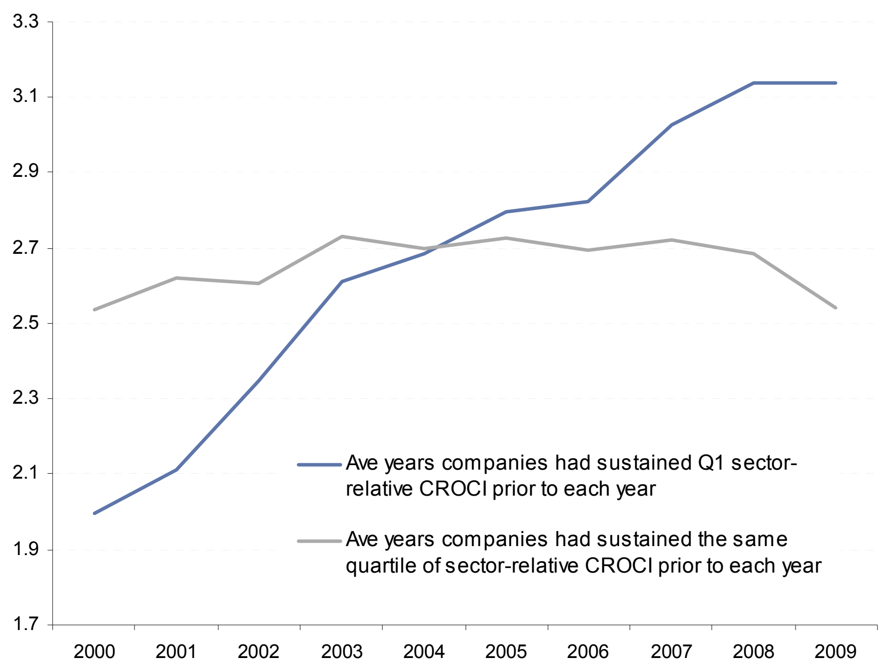
Source: MSCI, Quantum database, Goldman Sachs Global ECS Research.

Industry structural change and bifurcating performance: GS SUSTAIN provides a roadmap

Companies that are able to successfully navigate the accelerating pace and scale of structural change are seeing increasing financial rewards, while those with weaker business models face growing costs. Exhibit 7 shows the number of years for which companies have maintained the same quartile of returns relative to their sectors, both across the market and for first-quartile leaders. While the stability of sector-relative returns is falling on average, the sustainability of first-quartile returns has increased in recent years.

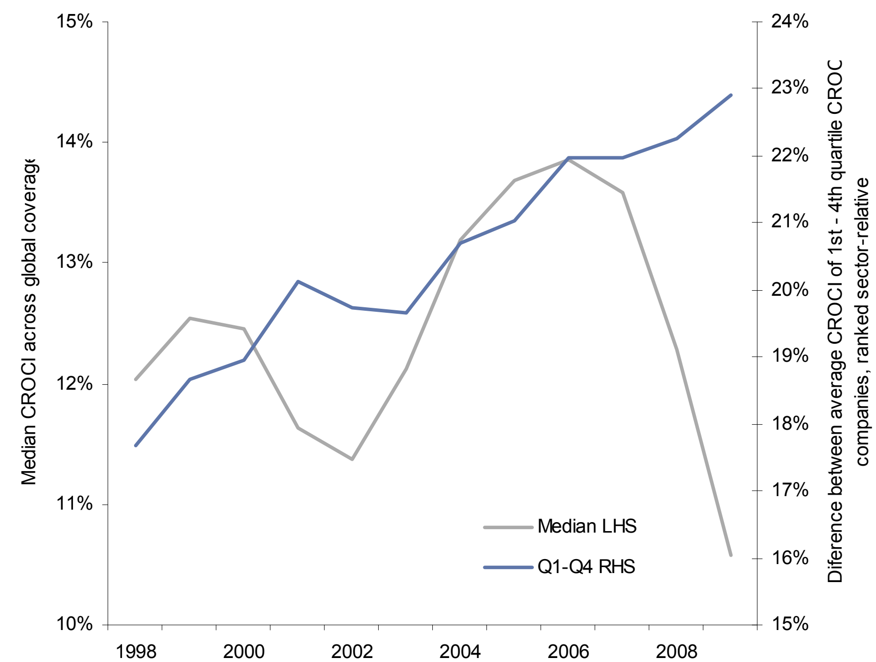
Similarly, while average returns across the market have been steady, the gap between returns generated by leaders and laggards is widening.

Exhibit 7: While on average, the stability of same-quartile returns is declining, companies with first-quartile returns sustain leadership for longer
Number of years for which companies with Q1 CROCI had generated Q1 CROCI prior to each year, compared with the number of years for which companies in all quartiles had sustained same-quartile returns



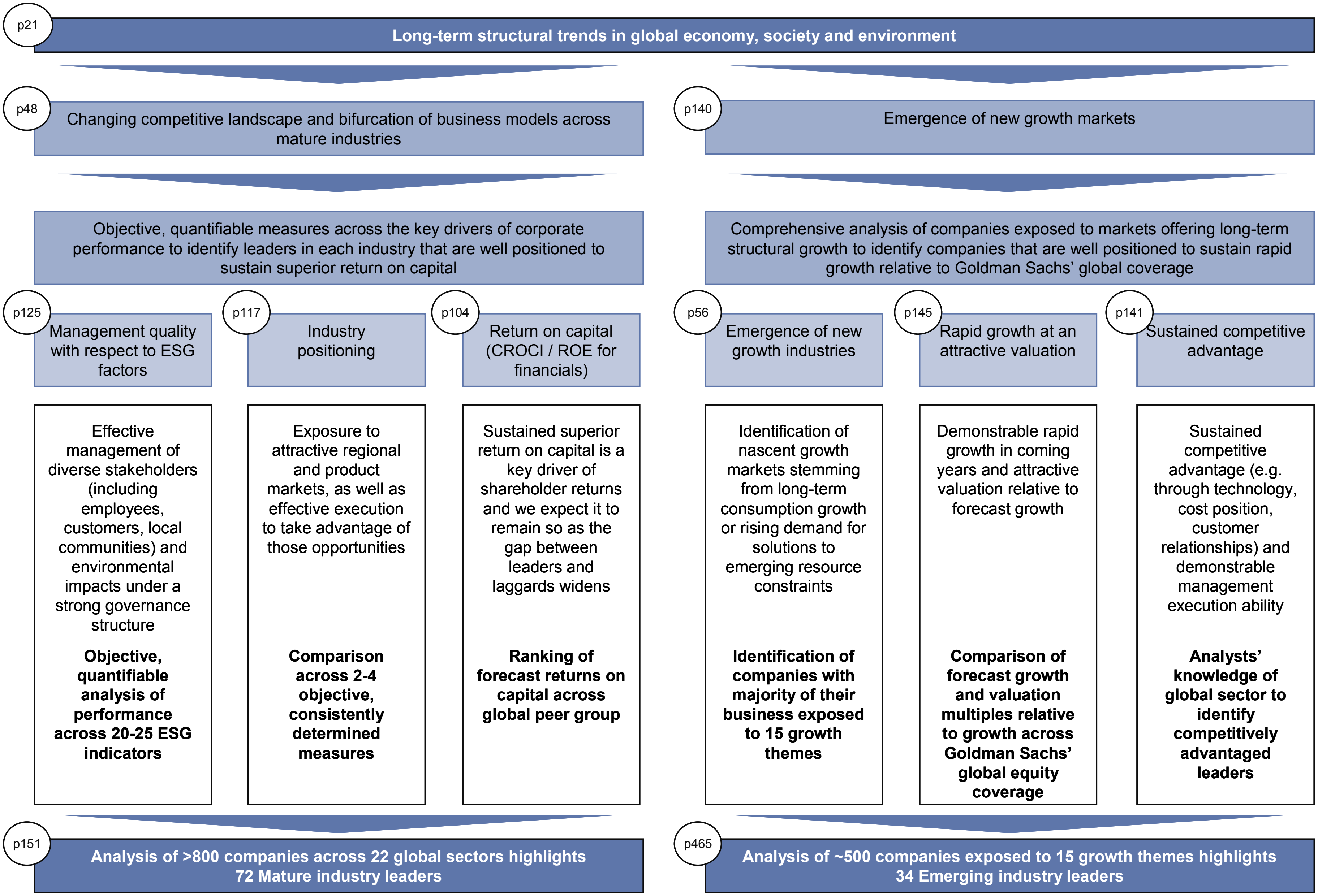
Source: Quantum database, Goldman Sachs Research.

Exhibit 8: While average cash returns are relatively stable, the gap between leaders and laggards is widening
Difference between average returns of first- and fourth-quartile companies, ranked by return on capital relative to sector peers



Source: Quantum database, Goldman Sachs Research.

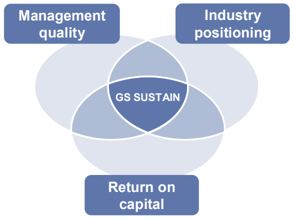
Exhibit 9: GS SUSTAIN provides an objective framework to translate long-term structural trends into stock conclusions. Page references are for the full report *Crossing the Rubicon: Our investment framework for the next decade,* also published today



Source: Goldman Sachs Research.

GS SUSTAIN identifies future leaders

GS SUSTAIN provides an objective, transparent framework to translate global structural trends into long-term drivers of competitive advantage in each industry and through to investment conclusions on a sector-by-sector basis, in both mature and emerging industries.



Sustained superior return on capital in mature industries

In established, mature sectors, the GS SUSTAIN framework is designed to identify those companies best positioned to maintain superior return on capital over the longer term (3-5 years and beyond), by examining both the returns forecast by our global sector analysts and the strategic and operational drivers that underpin these returns. The GS SUSTAIN framework applies objective, quantifiable measures to companies on each of the key drivers of corporate performance:

- **Return on capital:** Our analysis shows sustainability of superior returns on capital to be the key driver of equity market performance over longer investment horizons. We compare cash returns on cash invested (CROCI) based on our global sector analysts' forecasts for the coming three years (we use ROE in financial sectors).
  Over any holding period greater than one year, our backtesting shows that companies that are able to sustain superior return on capital have consistently delivered greater outperformance than either lowly valued companies or those with improving returns. The extent of this outperformance has risen over the past decade.

- **Industry positioning:** Rapidly shifting competitive advantage across global industries is increasing the importance of business models able to benefit from those changes. Exposure to attractive regions and product markets, as well as company-specific sources of competitive advantage (such as low-cost assets, technology leadership or strong brands) provide a platform for profitable growth and sustained competitive advantage. The GS SUSTAIN framework measures companies' positioning on the sources of strategic differentiation in each industry. The measures applied reflect top-down analysis of the key structural trends and drivers of return on capital in each industry, and bottom-up analysis by our sector teams.
  Companies achieving first-quartile industry positioning scores, on our objective analysis of the key drivers in each industry, have achieved return on capital over 50% higher than those with bottom-quartile performance.

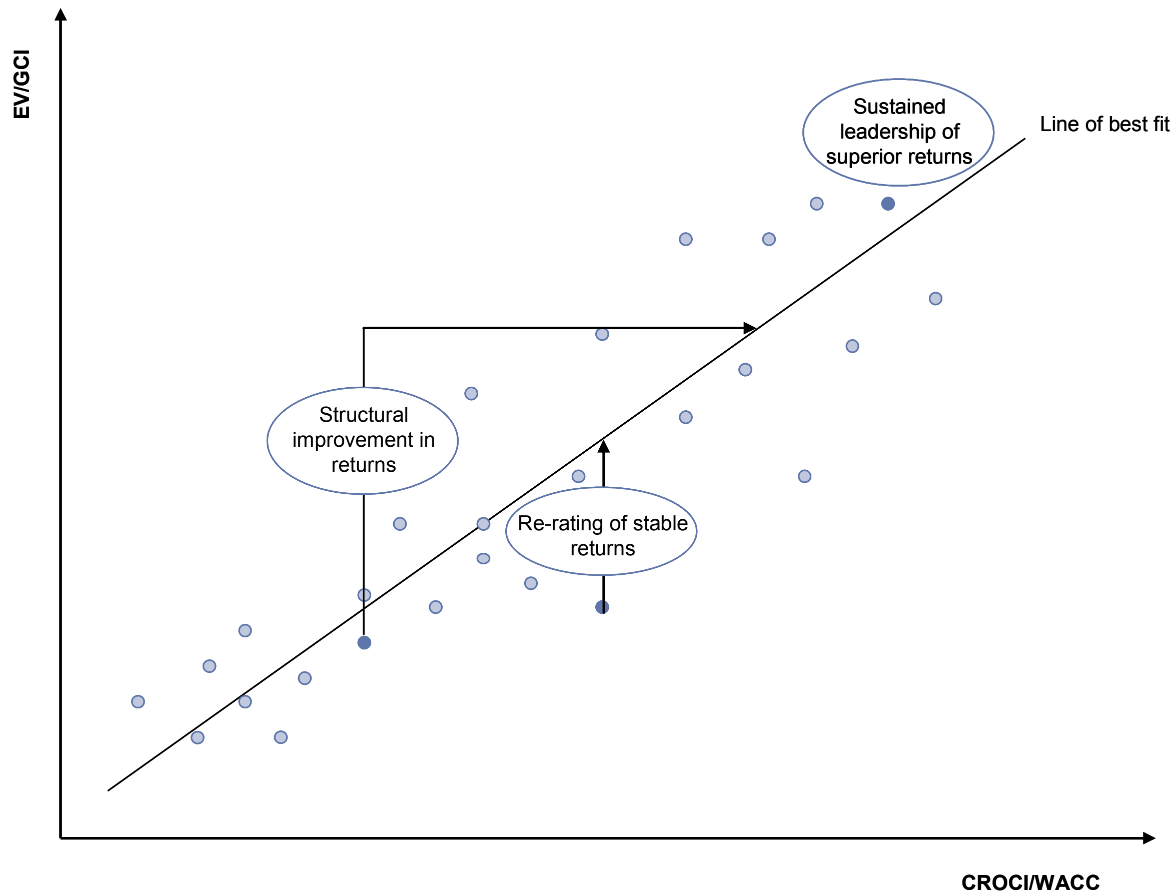
- **Management quality with respect to environmental, social and governance (ESG) factors:** Companies do not operate in a vacuum, but in the context of the economic, social, environmental and industrial trends facing societies broadly. Rising social expectations on companies and growing environmental concerns make effective management of these diverse pressures increasingly important to sustained leadership. In our view, companies developing strategies to address emerging social concerns or environmental tensions and reporting on their progress in doing so, under a strong governance structure, will be better placed to adapt to the changing pressures facing their industries. We assess companies on 20-25 objective, quantifiable indicators spanning the breadth of challenges that they face, from employee management and host government relationships to environmental impacts and the strength of corporate governance.
  Companies with first-quartile scores on our analysis of ESG performance have generated higher return on capital than the averages of their sectors. Equally important, companies with leading ESG scores tend to have more positive momentum and lower volatility of returns than peers with weaker scores.

Companies that stand out on each of these three dimensions of analysis are highlighted as mature industry leaders within the GS SUSTAIN Focus List. Full details of the analysis of each of the 22 mature sectors to which we have applied the GS SUSTAIN framework are in *Crossing the Rubicon: Our investment framework for the next decade*, also published today.

GS SUSTAIN analysis of mature industries is based on the strong relationship we find in every global sector between the excess returns that companies generate (cash return on cash invested/cost of capital) and the excess value attributed by the equity market (enterprise value/gross cash invested). This relationship provides three principal (long) investment strategies:

- **Mean reversion in valuation multiples:** Multiple applied to company's profitability returns to a sector-average level.
- **Change in returns, restructuring:** Company can achieve a structural improvement in profitability and commensurate outperformance without a re-rating.
- **Sustained leadership:** Companies able to sustain industry-leading return on capital deliver sustainably faster growth in assets relative to peers, resulting in outperformance relative to peers.

Exhibit 10: Three fundamental investment strategies: Valuation mean reversion, restructuring and sustained leadership



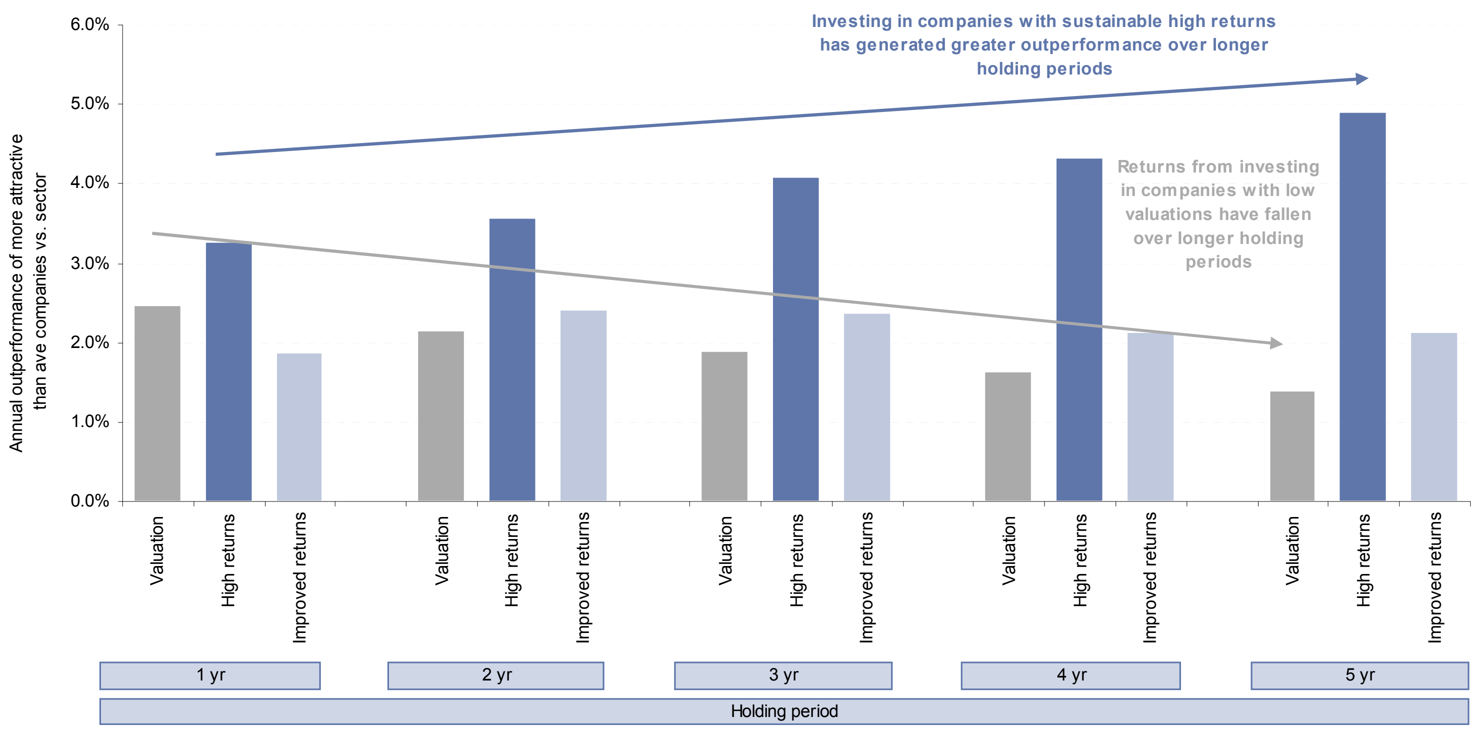
Source: Goldman Sachs Research.

All three approaches present opportunities for outperformance, but the effectiveness of each varies by sector, region, equity market phase and investors' time horizons. Exhibit 11 shows the annual average returns that would have been generated by following each of the three strategies since the start of 2000 across Goldman Sachs' global coverage of c.3,000 companies, ranked by GICS L2 sector:

- **Valuation:** Companies with below-average EV/GCI/CROCI in each sector, through each holding period.
- **Improved returns:** Companies with the greatest improvement in CROCI relative to sector peers, through each holding period.
- **High returns:** Companies generating CROCI higher than the average of each sector, through each holding period.

Over any holding period longer than one year, we find that companies with sustained high returns have delivered the greatest outperformance, and that this outperformance has increased over longer holding periods.

Exhibit 11: The longer investors' holding periods, the greater the superiority of high returns as an investment strategy
Sector-relative performance of: (1) valuation, (2) high returns and (3) improved returns strategies, since 2000



Results presented should not and cannot be viewed as an indicator of future performance.

Source: Quantum database, Goldman Sachs Research.

Analysis of the sustainability of return on capital over the long term requires an assessment of the industrial and operational strengths that underpin financial results. GS SUSTAIN applies objective, quantifiable measures to compare companies' industry positioning and management quality with respect to ESG factors, relative to sector peers. We use a consistent framework to assess the characteristics of each industry and the financial drivers of returns to identify the key drivers of competitive advantage. We have focused our analysis on the measures highlighted in blue, with those in grey being less vital, in our view. The details of how we measure these aspects of performance are shown in the full report *Crossing the Rubicon: Our investment framework for the next decade*.

Exhibit 12: Sector-by-sector industry positioning measures identified

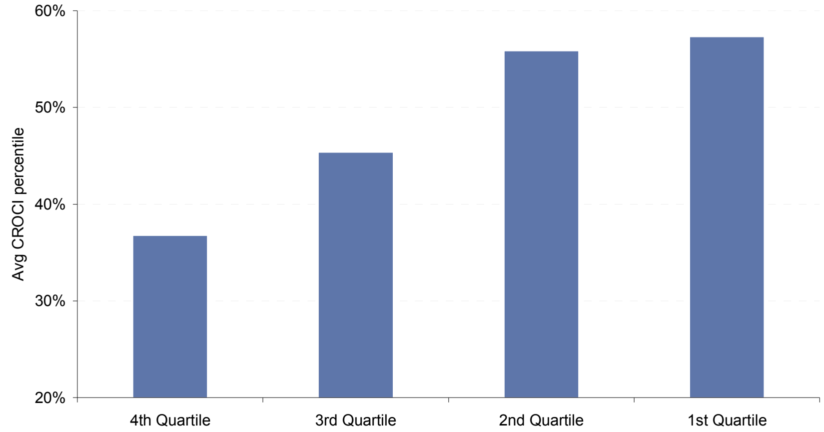
Sector		What companies do					How companies compete				
		Product market growth	Regional growth	Product market structure	Regional market structure	Regulatory exposure	Product development / obsolesence	Pricing power	Access to assets / asset depletion	Operating cost position	Market share & business focus
Energy	Oil & gas producers					✓			✓		
	Oil services	✓	✓	✓	✓						
	Oil refiners	✓		✓				✓		✓	
Materials	Mining			✓		✓			✓	✓	
	Steel		✓		✓	✓		✓	✓	✓	
	Chemicals	✓	✓	✓	✓	✓				✓	
	Construction		✓		✓					✓	
Industrials	Capital goods	✓	✓	✓	✓						
	Aerospace & defence		✓		✓	✓	✓				
Consumer Disc	Autos	✓	✓	✓		✓		✓		✓	
	Media	✓	✓	✓	✓		✓				✓
	Discretionary retail	✓	✓	✓	✓			✓			✓
Consumer Staples	Consumer staples	✓	✓	✓	✓			✓		✓	✓
	Staples retail			✓	✓			✓			✓
Health Care	Pharma	✓	✓	✓	✓	✓	✓				
	Medical technology			✓		✓		✓		✓	✓
Financials	Banks		✓		✓	✓					
	Insurance		✓		✓	✓		✓			
IT	Technology hardware	✓	✓	✓	✓		✓				✓
	Software & services	✓		✓							✓
Telecom	Telecoms		✓		✓	✓				✓	
Utilities	Utilities		✓		✓	✓				✓	

✓ Measured

✓ Not measured

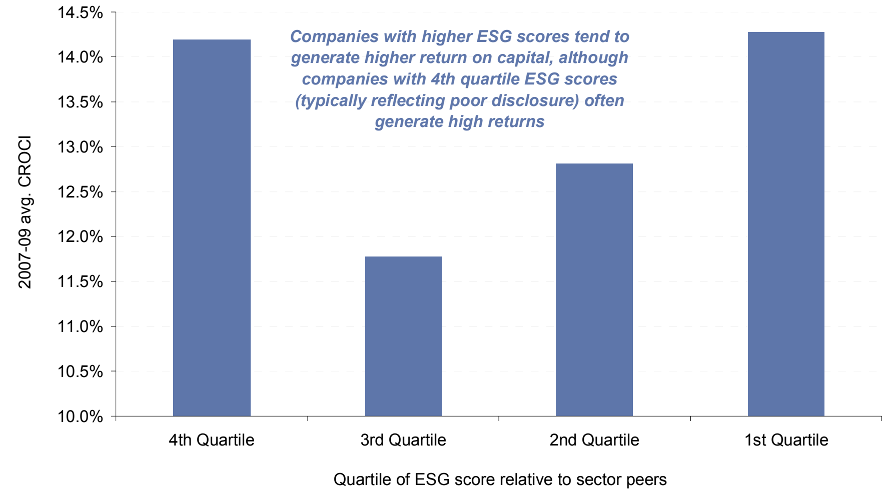
Source: Goldman Sachs Research.

Exhibit 13: Companies with stronger industry positioning scores tend to generate higher return on capital
Average sector-relative percentile ranked CROCI of companies in 1st-4th quartiles of industry positioning



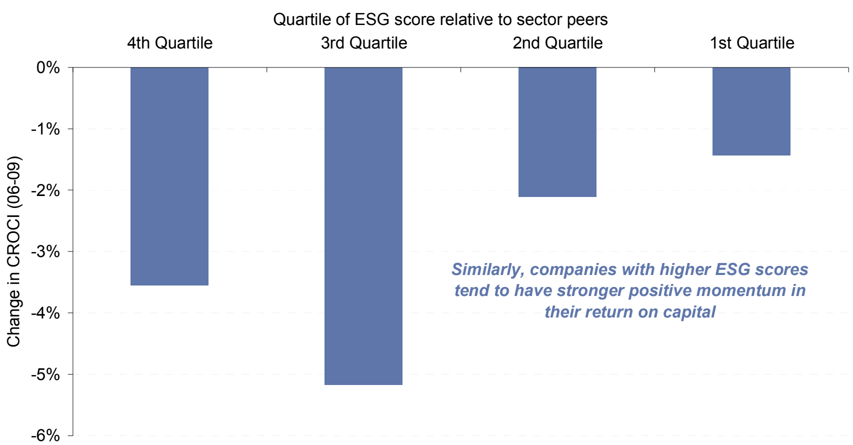
Source: Quantum database, Goldman Sachs Research estimates.

Exhibit 14: Companies with higher ESG scores tend to generate higher cash returns. 47% of 4th quartile ESG companies are based in emerging markets
Average CROCI of companies in each quartile of ESG performance (relative to sector peers), developed market-listed companies only



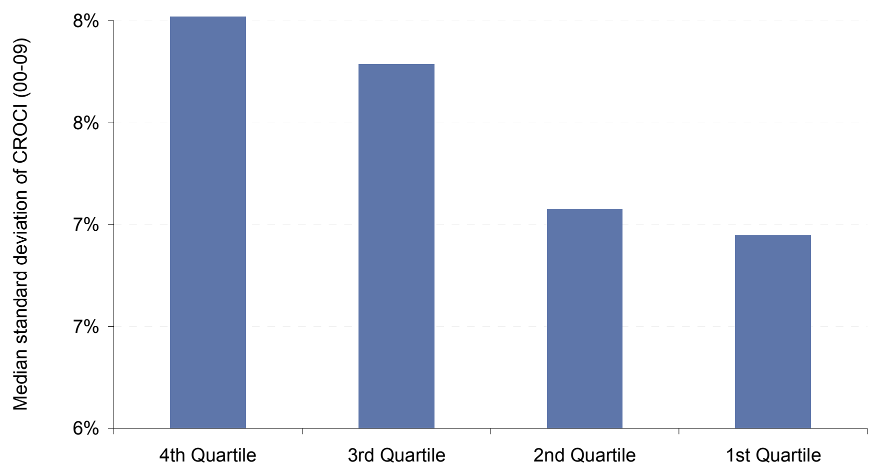
Source: Goldman Sachs Research estimates.

Exhibit 15: Companies with leading ESG scores tend to have higher incremental returns in every sector
Change in CROCI (2009 vs. 2006) of companies in each quartile of ESG performance (relative to sector peers), developed market-listed companies only



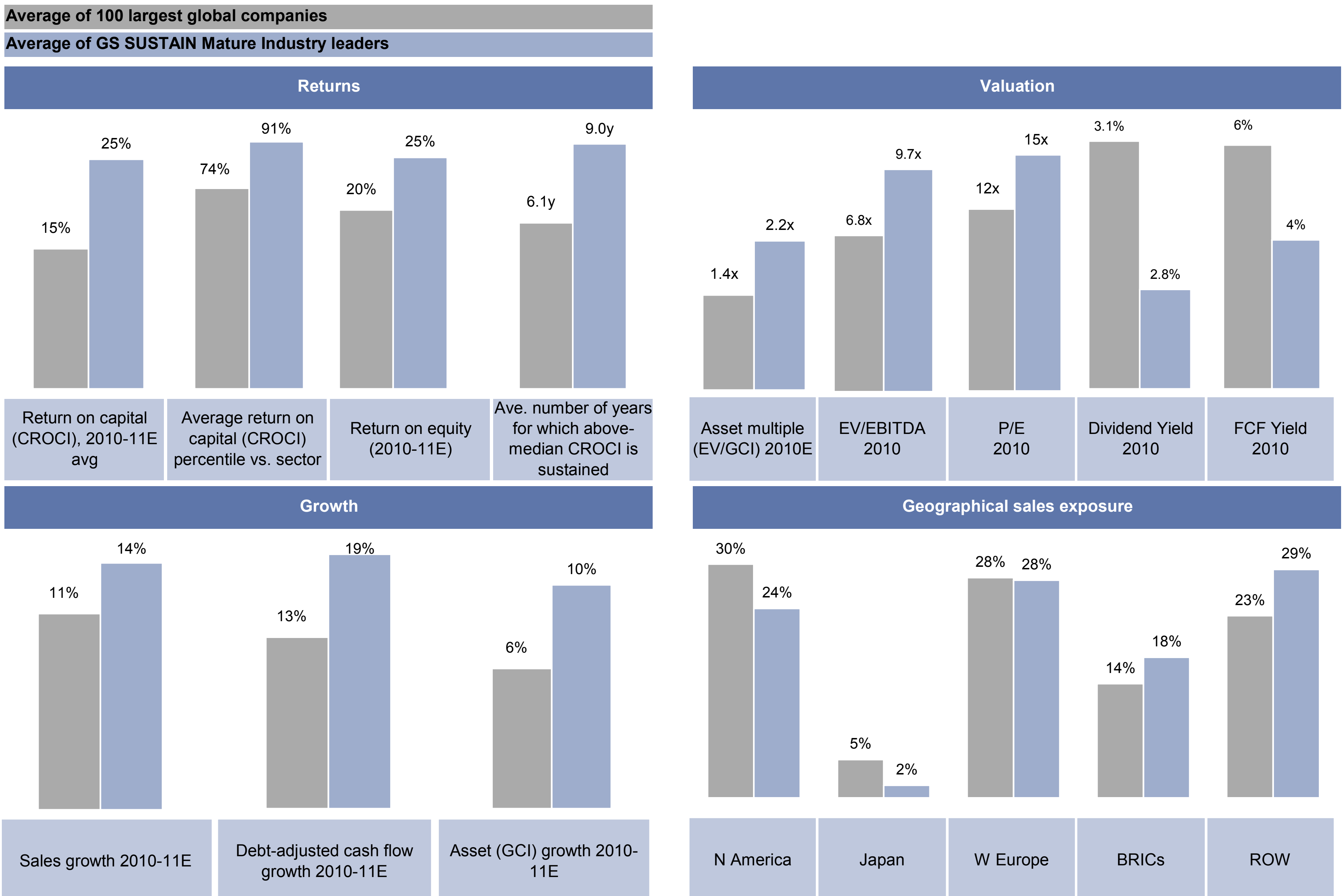
Source: Goldman Sachs Research estimates.

Exhibit 16: Companies with higher ESG scores tend to have less volatile return on capital across all sectors
Median volatility of returns across sectors



Source: Goldman Sachs Research estimates.

Exhibit 17: Relative to the largest global companies, we find that GS SUSTAIN mature industry leaders generate higher returns, grow more quickly, are more highly valued and offer greater exposure to fast-growing emerging economies



Source: Datastream, Quantum database, Goldman Sachs Research estimates.

GS SUSTAIN identifies emerging growth opportunities

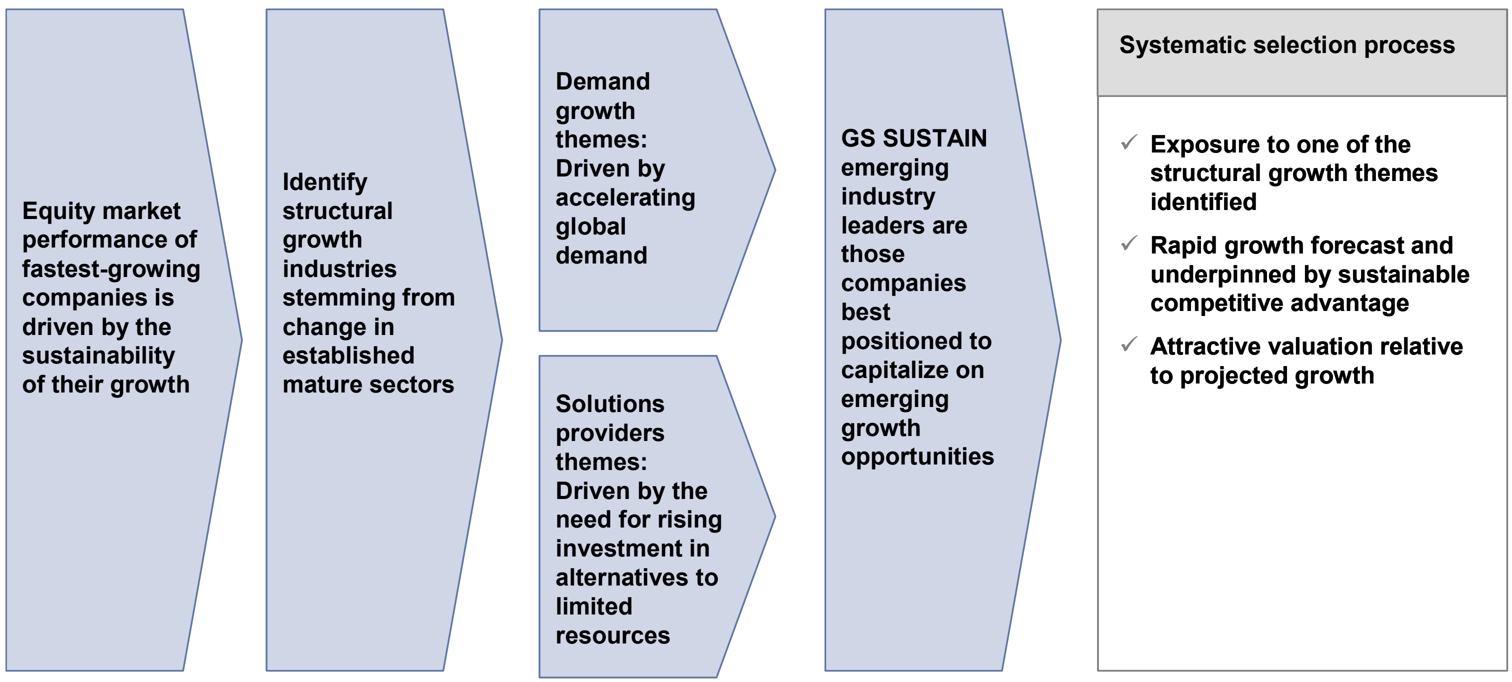
Structural change in established industries creates significant growth markets into which new, emerging industries expand, providing opportunities for rapid growth for those companies with strong competitive positions.

We identify those companies best positioned to sustain rapid growth by screening on three dimensions:

- Exposure to structural growth trends.
- Rapid growth at an attractive valuation.
- Identifiable competitive advantage.

Companies that stand out on each of these three dimensions of analysis are highlighted as emerging industry leaders within the GS SUSTAIN Focus List (see full report, *Crossing the Rubicon: Our investment framework for the next decade*).

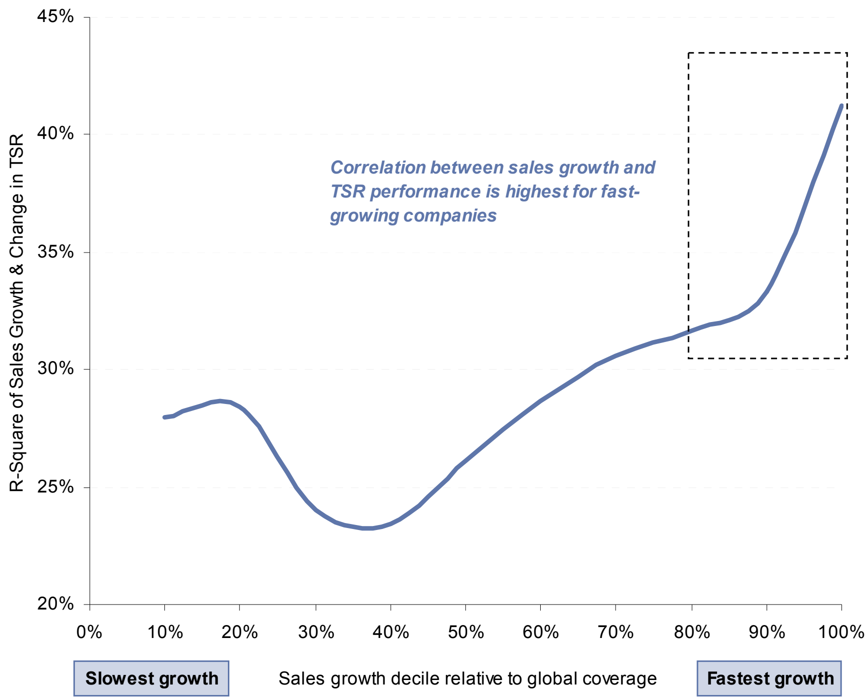
Exhibit 18: GS SUSTAIN identifies companies well placed to sustain rapid structural growth



Source: Goldman Sachs Research.

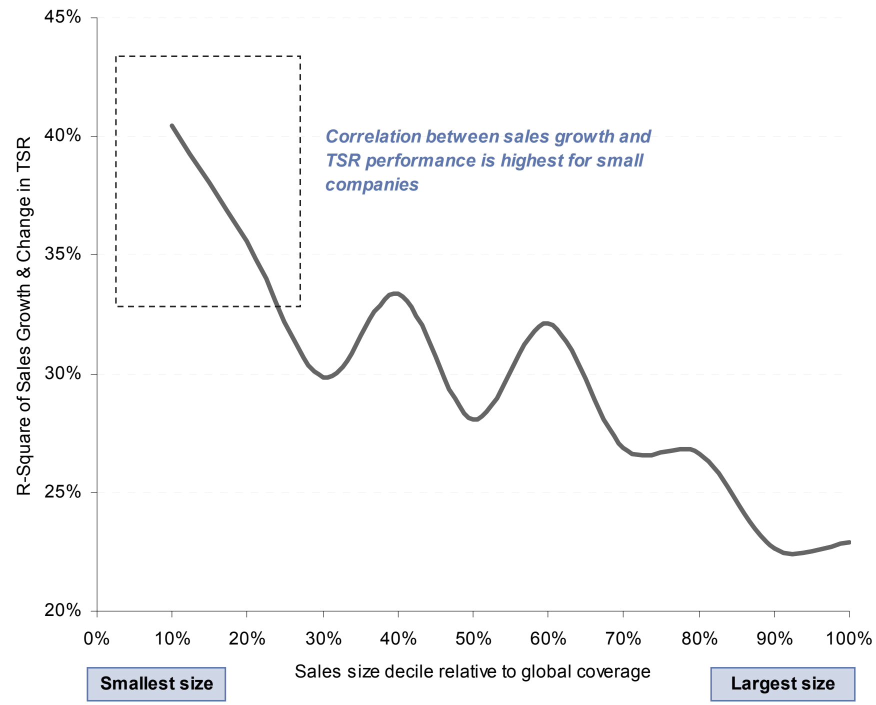
Whereas our analysis shows that sustainability of return on capital has consistently been the key driver of equity market performance for large, established companies, among companies achieving growth rates in the top 20% of Goldman Sachs' global coverage, which are typically also among the smallest 20%, we find a stronger relationship between both valuation and shareholder returns with growth than with return on capital.

Exhibit 19: Sales growth becomes a key driver of TSR for faster-growing…
Importance of growth as a driver of total shareholder returns vs. companies' sales growth (2005-08)



Source: Goldman Sachs Research.

Exhibit 20: … and smaller companies
Importance of growth as a driver of total shareholder returns vs. companies' size (measured as total revenue; 2005-08)



Source: Goldman Sachs Research.

Changes to GS SUSTAIN Focus List

Exhibit 21: Changes to the GS SUSTAIN focus list made February 26, 2010

	Additions			Removals		
Mature industries	Antofagasta	UK	ANTO.L	Iberdrola Ren	Spain	IBR.MC
	Rolls-Royce	UK	RR.L	Nestle	Switzerland	NESN.VX
	Straumann	Switzerland	STMN.S	Reckitt Benckiser	UK	RB.L
	Technip	France	TECF.PA	Red Electrica	Spain	REE.MC
	Vallourec	France	VLLP.PA	Statoil	Norway	STL.OL
	Vestas Wind Systems*	Denmark	VWS.CO	Emerson Electric	US	EMR
	Novatek	Russia	NVTKq.L	HP	US	HPQ
	Sasol	S Africa	SOLJ.J	Mastercard	US	MA
	Baxter	US	BAX	Gerdau	Brazil	GGBR3.SA
	Hess	US	HES	CNOOC	China	0883.HK
	Oracle	US	ORCL			
	Qualcomm	US	QCOM			
	Salesforce.com	US	CRM			
	Natura*	Brazil	NATU3.SA			
	Bharat Heavy Elect.	India	BHEL.BO			
	China Resources	China	0836.HK			
	Lenovo	China	0992.HK			
	Mindray Medical*	China	MR			
	Tencent	China	0700.HK			
Emerging industries	Aixtron	Germany	AIXGn.DE	Actelion	Switzerland	ATLN.VX
	Meyer Burger	Switzerland	MBTN.S	ALK Abello	Denmark	ALKb.CO
	Petropavlovsk PLC	UK	POG.L	Axis-Shield	UK	ASD.L
	Qiagen, N.V.	Netherlands	QGEN	Diasorin Spa	Italy	DIAS.MI
	Salamander Energy PLC	UK	SMDR.L	EDF Energies Nouvelles S.A.	France	EEN.PA
	Schoeller-Bleckmann	Austria	SBOE.VI	Gamesa Corp Tecnologica SA	Spain	GAM.MC
	Cherkizovo Group	Russia	CHEq.L	Genmab	Denmark	GEN.CO
	Dixy Group	Russia	DIXY.RTS	Grifols	Spain	GRLS.MC
	Alexion Pharmaceuticals, Inc.	USA	ALXN	Renewable Energy Corporation	Norway	REC.OL
	Illumina Inc	USA	ILMN	IBS Group	Russia	ZY71q.DE
	International Rectifier Corp.	USA	IRF	Veropharm	Russia	VRPH.RTS
	Intrepid Potash, Inc.	USA	IPI	Covance Inc.	USA	CVD
	lululemon athletica inc.	USA	LULU	Mylan Inc.	USA	MYL
	NuVasive, Inc.	USA	NUVA	Lojas Renner	Brazil	LREN3.SA
	Quanta Services, Inc.	USA	PWR	NET	Brazil	NETC4.SA
	Rackspace Hosting, Inc.	USA	RAX	Want Want China Holdings	China	0151.HK
	Rossi	Brazil	RSID3.SA	WorleyParsons Ltd.	Australia	WOR.AX
	AsiaInfo Holdings	China	ASIA			
	China High Speed Transmission	China	0658.HK			
	Fortis Healthcare	India	FOHE.BO			
	HK China Dongxiang Group	China	3818.HK			
	Hubei Yihua Chemical Industry	China	000422.SZ			
	Intime Department Store (Group) Co	China	1833.HK			
	IVRCL	India	IVRC.BO			
	Lupin	India	LUPN.BO			
	New Oriental Education & Technology	China	EDU			

* Note: Three companies remain on the GS SUSTAIN Focus List but are now classified as Mature Industry Leaders (previously Emerging Industry Leaders): Natura (NATU3.SA), Mindray Medical International (MR) and Vestas Wind Systems (VWS.CO).

Source: Goldman Sachs Research.

Financial Advisory disclosures

Goldman Sachs is acting as financial advisor to BHP Billiton Limited in an announced strategic transaction.

Goldman Sachs is acting as financial advisor to Schlumberger N.V. in an announced strategic transaction.

Goldman Sachs is acting as financial advisor to Suez Environnement SA in an announced strategic transaction.

Goldman Sachs is acting as financial advisor to China Resources Enterprise Ltd in an announced strategic transaction.

Special disclosures

Goldman Sachs owns 4% or more of the total issued share capital of Industrial & Commercial Bank of China and 16% or more of H shares of Industrial & Commercial Bank of China. Goldman Sachs may have other business relationships with the Company.

Other disclosures

Research written by Donald Lu on companies listed in Taiwan is written by him in his capacity as consultant to Goldman Sachs (Asia) L.L.C. Any other research is written in his capacity as employee of Beijing Gao Hua Securities Company Limited.

Reg AC

We, Anthony Ling, Global CIO, Andrew Howard, Marc Fox, Melissa B. Epperly, Sara Finan, Sarah Forrest, CFA, Richard Manley, Evgeny Titel, Louise Nankiinga, Kristina Obrtacova and Stian Obrestad, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Investment Profile

The Goldman Sachs Investment Profile provides investment context for a security by comparing key attributes of that security to its peer group and market. The four key attributes depicted are: growth, returns, multiple and volatility. Growth, returns and multiple are indexed based on composites of several methodologies to determine the stocks percentile ranking within the region's coverage universe.

The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

Growth is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

Quantum

Quantum is Goldman Sachs' proprietary database providing access to detailed financial statement histories, forecasts and ratios. It can be used for in-depth analysis of a single company, or to make comparisons between companies in different sectors and markets.

Disclosures

Coverage group(s) of stocks by primary analyst(s)

Compendium report: please see disclosures at http://www.gs.com/research/hedge.html. Disclosures applicable to the companies included in this compendium can be found in the latest relevant published research.

Company-specific regulatory disclosures

Compendium report: please see disclosures at http://www.gs.com/research/hedge.html. Disclosures applicable to the companies included in this compendium can be found in the latest relevant published research.

Distribution of ratings/investment banking relationships

Goldman Sachs Investment Research global coverage universe

	Rating Distribution			Investment Banking Relationships		
	Buy	Hold	Sell	Buy	Hold	Sell
Global	31%	53%	16%	53%	47%	40%

As of January 1, 2010, Goldman Sachs Global Investment Research had investment ratings on 2,763 equity securities. Goldman Sachs assigns stocks as Buys and Sells on various regional Investment Lists; stocks not so assigned are deemed Neutral. Such assignments equate to Buy, Hold and Sell for the purposes of the above disclosure required by NASD/NYSE rules. See 'Ratings, Coverage groups and views and related definitions' below.

Price target and rating history chart(s)

Compendium report: please see disclosures at http://www.gs.com/research/hedge.html. Disclosures applicable to the companies included in this compendium can be found in the latest relevant published research.

Regulatory disclosures

Disclosures required by United States laws and regulations

See company-specific regulatory disclosures above for any of the following disclosures required as to companies referred to in this report: manager or co-manager in a pending transaction; 1% or other ownership; compensation for certain services; types of client relationships; managed/co-managed public offerings in prior periods; directorships; for equity securities, market making and/or specialist role. Goldman Sachs usually makes a market in fixed income securities of issuers discussed in this report and usually deals as a principal in these securities.

The following are additional required disclosures: **Ownership and material conflicts of interest:** Goldman Sachs policy prohibits its analysts, professionals reporting to analysts and members of their households from owning securities of any company in the analyst's area of coverage. **Analyst compensation:** Analysts are paid in part based on the profitability of Goldman Sachs, which includes investment banking revenues. **Analyst as officer or director:** Goldman Sachs policy prohibits its analysts, persons reporting to analysts or members of their households from serving as an officer, director, advisory board member or employee of any company in the analyst's area of coverage. **Non-U.S. Analysts:** Non-U.S. analysts may not be associated persons of Goldman Sachs & Co. and therefore may not be subject to NASD Rule 2711/NYSE Rules 472 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

Distribution of ratings: See the distribution of ratings disclosure above. **Price chart:** See the price chart, with changes of ratings and price targets in prior periods, above, or, if electronic format or if with respect to multiple companies which are the subject of this report, on the Goldman Sachs website at http://www.gs.com/research/hedge.html.

Additional disclosures required under the laws and regulations of jurisdictions other than the United States

The following disclosures are those required by the jurisdiction indicated, except to the extent already made above pursuant to United States laws and regulations. **Australia:** This research, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. **Canada:** Goldman Sachs & Co. has approved of, and agreed to take responsibility for, this research in Canada if and to the extent it relates to equity securities of Canadian issuers. Analysts may conduct site visits but are prohibited from accepting payment or reimbursement by the company of travel expenses for such visits. **Hong Kong:** Further information on the securities of covered companies referred to in this research may be obtained on request from Goldman Sachs (Asia) L.L.C. **India:** Further information on the subject company or companies referred to in this research may be obtained from Goldman Sachs (India) Securities Private Limited; **Japan:** See below. **Korea:** Further information on the subject company or companies referred to in this research may be obtained from Goldman Sachs (Asia) L.L.C., Seoul Branch. **Russia:** Research reports distributed in the Russian Federation are not advertising as defined in the Russian legislation, but are information and analysis not having product promotion as their main purpose and do not provide appraisal within the meaning of the Russian legislation on appraisal activity. **Singapore:** Further information on the covered companies referred to in this research may be obtained from Goldman Sachs (Singapore) Pte. (Company Number: 198602165W). **Taiwan:** This material is for reference only and must not be reprinted without permission. Investors should carefully consider their own investment risk. Investment results are the responsibility of the individual investor. **United Kingdom:** Persons who would be categorized as retail clients in the United Kingdom, as such term is defined in the rules of the Financial Services Authority, should read this research in conjunction with prior Goldman Sachs research on the covered companies referred to herein and should refer to the risk warnings that have been sent to them by Goldman Sachs International. A copy of these risks warnings, and a glossary of certain financial terms used in this report, are available from Goldman Sachs International on request.

European Union: Disclosure information in relation to Article 4 (1) (d) and Article 6 (2) of the European Commission Directive 2003/126/EC is available at http://www.gs.com/client_services/global_investment_research/europeanpolicy.html which states the European Policy for Managing Conflicts of Interest in Connection with Investment Research.

Japan: Goldman Sachs Japan Co., Ltd. is a Financial Instrument Dealer under the Financial Instrument and Exchange Law, registered with the Kanto Financial Bureau (Registration No. 69), and is a member of Japan Securities Dealers Association (JSDA) and Financial Futures Association of Japan (FFAJ). Sales and purchase of equities are subject to commission pre-determined with clients plus consumption tax. See company-specific disclosures as to any applicable disclosures required by Japanese stock exchanges, the Japanese Securities Dealers Association or the Japanese Securities Finance Company.

Ratings, coverage groups and views and related definitions

Buy (B), Neutral (N), Sell (S) -Analysts recommend stocks as Buys or Sells for inclusion on various regional Investment Lists. Being assigned a Buy or Sell on an Investment List is determined by a stock's return potential relative to its coverage group as described below. Any stock not assigned as a Buy or a Sell on an Investment List is deemed Neutral. Each regional Investment Review Committee manages various regional Investment Lists to a global guideline of 25%-35% of stocks as Buy and 10%-15% of stocks as Sell; however, the distribution of Buys and Sells in any particular coverage group may vary as determined by the regional Investment Review Committee. Regional Conviction Buy and Sell lists represent investment recommendations focused on either the size of the potential return or the likelihood of the realization of the return.

Return potential represents the price differential between the current share price and the price target expected during the time horizon associated with the price target. Price targets are required for all covered stocks. The return potential, price target and associated time horizon are stated in each report adding or reiterating an Investment List membership.

Coverage groups and views: A list of all stocks in each coverage group is available by primary analyst, stock and coverage group at http://www.gs.com/research/hedge.html. The analyst assigns one of the following coverage views which represents the analyst's investment outlook on the coverage group relative to the group's historical fundamentals and/or valuation. **Attractive (A).** The investment outlook over the following 12 months is favorable relative to the coverage group's historical fundamentals and/or valuation. **Neutral (N).** The investment outlook over the following 12 months is neutral relative to the coverage group's historical fundamentals and/or valuation. **Cautious (C).** The investment outlook over the following 12 months is unfavorable relative to the coverage group's historical fundamentals and/or valuation.

Not Rated (NR). The investment rating and target price have been removed pursuant to Goldman Sachs policy when Goldman Sachs is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances. **Rating Suspended (RS).** Goldman Sachs Research has suspended the investment rating and price target for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon. **Coverage Suspended (CS).** Goldman Sachs has suspended coverage of this company. **Not Covered (NC).** Goldman Sachs does not cover this company. **Not Available or Not Applicable (NA).** The information is not available for display or is not applicable. **Not Meaningful (NM).** The information is not meaningful and is therefore excluded.

Global product; distributing entities

The Global Investment Research Division of Goldman Sachs produces and distributes research products for clients of Goldman Sachs, and pursuant to certain contractual arrangements, on a global basis. Analysts based in Goldman Sachs offices around the world produce equity research on industries and companies, and research on macroeconomics, currencies, commodities and portfolio strategy. This research is disseminated in Australia by Goldman Sachs JBWere Pty Ltd (ABN 21 006 797 897) on behalf of Goldman Sachs; in Canada by Goldman Sachs & Co. regarding Canadian equities and by Goldman Sachs & Co. (all other research); in Hong Kong by Goldman Sachs (Asia) L.L.C.; in India by Goldman Sachs (India) Securities Private Ltd.; in Japan by Goldman Sachs Japan Co., Ltd.; in the Republic of Korea by Goldman Sachs (Asia) L.L.C., Seoul Branch; in New Zealand by Goldman Sachs JBWere (NZ) Limited on behalf of Goldman Sachs; in Russia by OOO Goldman Sachs; in Singapore by Goldman Sachs (Singapore) Pte. (Company Number: 198602165W); and in the United States of America by Goldman Sachs & Co. Goldman Sachs International has approved this research in connection with its distribution in the United Kingdom and European Union.

European Union: Goldman Sachs International, authorized and regulated by the Financial Services Authority, has approved this research in connection with its distribution in the European Union and United Kingdom; Goldman Sachs & Co. oHG, regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht, may also distribute research in Germany.

General disclosures

This research is for our clients only. Other than disclosures relating to Goldman Sachs, this research is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Other than certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst's judgment.

Goldman Sachs conducts a global full-service, integrated investment banking, investment management, and brokerage business. We have investment banking and other business relationships with a substantial percentage of the companies covered by our Global Investment Research Division. Goldman Sachs & Co., the United States broker dealer, is a member of SIPC (http://www.sipc.org).

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this research. Our asset management area, our proprietary trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

We and our affiliates, officers, directors, and employees, excluding equity and credit analysts, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives, if any, referred to in this research.

This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. Investors should review current options disclosure documents which are available from Goldman Sachs sales representatives or at http://www.theocc.com/publications/risks/riskchap1.jsp. Transactions cost may be significant in option strategies calling for multiple purchase and sales of options such as spreads. Supporting documentation will be supplied upon request.

Our research is disseminated primarily electronically, and, in some cases, in printed form. Electronic research is simultaneously available to all clients.

Disclosure information is also available at http://www.gs.com/research/hedge.html or from Research Compliance, One New York Plaza, New York, NY 10004.