November 4, 2009

Global Portfolio Strategy

The BRICs Nifty 50: The EM & DM winners

The new BRICs Nifty 50 – EM and DM baskets

The credit crunch has acted as a catalyst for global economic rebalancing by accelerating the increase in US savings and the simultaneous rise in consumption in the BRICs. We estimate that two billion people could join the global middle class by 2030, mainly from BRICs. China and India are also set to dominate infrastructure demand over the next decade. These trends provide excellent opportunities for the best positioned companies from both the DM and EM markets. We have identified two new 'BRICs Nifty 50' baskets to help access this opportunity: 50 potential winners from the emerging markets (Bloomberg ticker GSSTEM50) and 50 developed market companies with BRICs exposure (GSSTDM50).

Comparing the two

The baskets offer an opportunity to benefit from the BRICs theme both for dedicated DM and for global investors who can invest in EM directly. In addition, the advantage of two baskets is that investors can switch between the two as relative valuation and growth opportunities present themselves. On balance, while we expect both baskets to do well over the long run, we think that GSSTDM50 currently offers the best mix of liquidity, value and premium growth.

BRIC Nifty 50 baskets relative performance (Bloomberg tickers: GSSTDM50 and GSSTEM50)

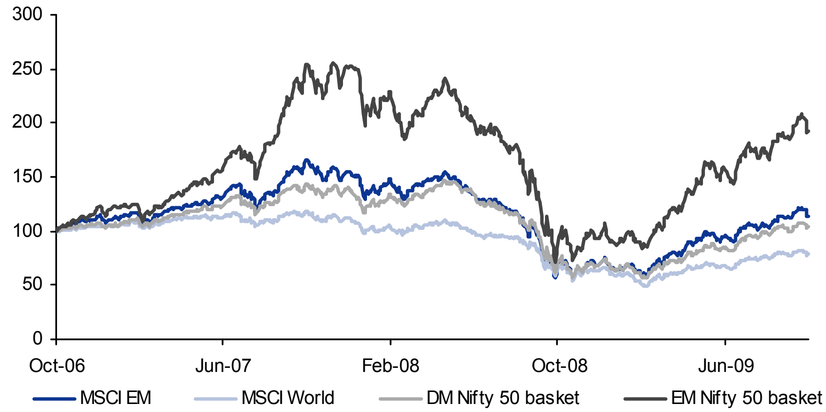

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Table of contents

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Identifying winners from the BRICs story

Since 2001, we have focused on the increasing importance of BRICs countries in the global economy; we believe they remain on a trajectory that will see their combined output reach 50% of the G7 level by 2020 and parity between 2030 and 2050. The economic downturn of the last 24 months has accelerated that realignment of the global economy; while growth slowed in all major regions, it has rebounded most quickly in emerging economies, widening the disparity between emerging market growth and that of developed markets. In this paper, we outline how continued strength in emerging economies is driving growth in consumer classes as well as continued infrastructure investment in the BRICs. We identify two groups of companies that can help investors own this theme – one from the developed markets, the other within the emerging markets.

Exposure to those fast growing economies is increasingly becoming a *sine qua no*n of global portfolios. Investment opportunities exist in both emerging market equities and through developed market equities with significant exposure to those economies.

We have developed two new baskets to help identify the potential winners in this exciting realignment of global growth opportunities. We describe both as a New Nifty 50. The concept harks back to the so called 'Nifty 50' US stocks – the leading group of global multinationals that dominated the US markets in the 1960s and early 1970s. This new Nifty 50 offers a vision of 50 companies from the developed markets that we believe are best placed to benefit from the BRICs super cycle, as well as a Nifty 50 of BRICs companies that are likely to emerge as the new winners in the global markets.

This piece is a joint analysis between the Goldman Sachs' regional strategists in Global ECS together with the Goldman Sachs Global SUSTAIN team. The GS SUSTAIN framework identifies long-term industry leaders that are well positioned to benefit from structural trends within their industry, including global economic realignment. Leaders are identified through analysis of objective, quantifiable measures of performance across the key drivers of corporate performance: 1) returns on capital, 2) industry positioning and 3) management quality (with respect to environmental, social and governance issues). The developed market basket includes 12 GS SUSTAIN focus list leaders and the emerging market basket includes nine focus list leaders.

The emerging market listed basket is likely to benefit from continued growth in capital markets and the increasing international competitiveness of companies in those countries as well as from the tailwind of rising domestic demand, particularly in those sectors where international competition is limited.

The developed market basket provides less focused but more stable exposure through well placed developed market companies.

There are two reasons why we identify both EM and DM Nifty 50 BRICs baskets.

- Over time the two groups of companies may diverge in valuation and growth, providing a useful hedge or switch opportunity between one basket and the other.
- Many investors may be limited regionally to an investment area. US or European fund managers, for example, may not be able to buy into the EM growth story directly, but could outperform their domestic indices by buying these companies. We find that our DM BRIC basket (GSSTDM50) has a very high correlation with the MSCI EM indices, so investors who are not able to buy EM stocks directly might find this an attractive alternative.

Both baskets currently look attractive

In terms of attractions of these baskets currently:

- The EM Nifty 50 (GSSTEM50) trades at a similar 2011E earnings multiple to the MSCI EM but offers stronger growth. Although the Price to Book is higher than for MSCI EM (2.0 vs. 1.6 using 2011E data), this is matched by a meaningfully better ROE (20% vs. 16% using 2011E data). The basket also has a high EBIT margin, above 20%, which is twice the margin analysts forecast for the MSCI EM in 2011.
- The DM Nifty 50 BRICs basket (GSSTDM50) has performed in line with the MSCI Emerging Markets and tracks this index closely. Over the last three years, investing in these companies would have returned 16% in US dollar terms. This compares very well with a broad developed index like the MSCI World, which over the same period lost some 20%. We think this outperformance reflects the diverging economic paths between emerging and advanced economies. Investing in the global BRIC basket provides investors an emerging market-like return with possibly less corporate governance risk and less political risk.
- In terms of valuation, GSSTDM50 is cheaper on an EV/EBITDA basis than MSCI EM and has a higher EBIT margin than either MSCI World or MSCI EM for both next year and the year after. While the P/B is higher than for the other main indices, the basket has a premium 2011E ROE of over 16%. Revisions have also been higher for our basket over the last month than for MSCI EM or MSCI World.
- The DM Nifty 50 basket offers an EM-like return with a lower volatility. Although it has a higher volatility than the MSCI World developed, the 3-month realized volatility has been on average 1.2 vol points below the MSCI EM realized volatility over the last three years (Exhibit 52).
- We believe that our DM Nifty 50 basket offers a liquid vehicle through which to gain exposure to Emerging Markets. This differs meaningfully from some Emerging Markets where the fluctuation of liquidity could provide a significant hurdle for investors. The median market cap in our DM Nifty 50 basket is $18 bn and the median liquidity, measured as the last six months' average daily liquidity, is $112 mn.
- To investors whose investment universe is limited to developed markets, we recommend a long position in our DM Nifty 50 basket (GSSTDM50) that could potentially be paired against a short position in the MSCI World index.
- For global investors with a strong positive view on emerging markets, we believe a long position in our EM Nifty 50 basket (GSSTEM50) paired against the MSCI World index offers a high-beta implementation of that view.
- On balance, while we expect both baskets to do well over the long run, we think that GSSTDM50 currently offers the best mix of liquidity, value and premium growth.

Exhibit 1: Annualized volatility and beta for our baskets and MSCI indices

	Beta	Volatility
EM Nifty 50	1.45	38.39
DM Nifty 50	1.26	29.32
MSCI EM	1.25	30.08
MSCI World	1	24.00

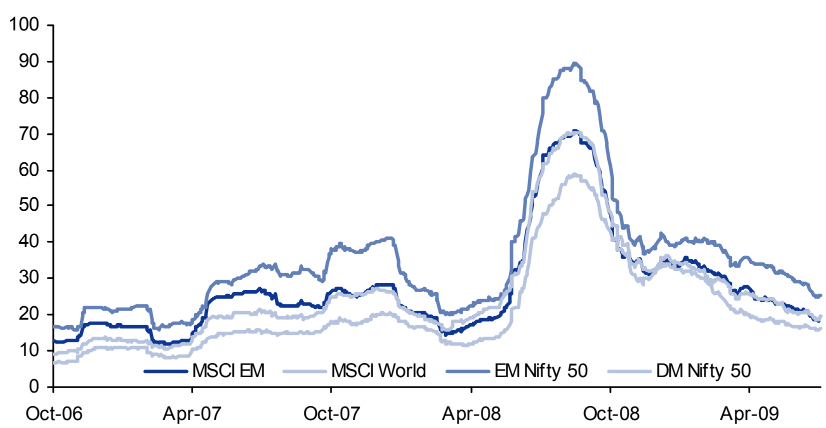
Source: Goldman Sachs Research estimates, Goldman Sachs Global ECS Research.

Exhibit 2: Our DM & EM Nifty 50 baskets offer attractive growth and value characteristics
Consensus data

Metric	Period	BRIC DM 50 (GSSTDM50)	BRIC EM 50 (GSSTEM50)	MSCI EM	MSCI World
P/E (x)	2009E	17.7	19.1	16.4	17.0
	2010E	14.2	13.7	12.5	13.0
	2011E	11.8	10.7	10.5	10.8
EV/EBITDA (x)	2009E	10.2	10.9	12.4	8.2
	2010E	8.7	8.2	9.7	7.1
	2011E	7.7	6.9	8.2	6.1
P/B (x)	2009E	2.2	2.6	1.9	1.6
	2010E	2.1	2.3	1.8	1.5
	2011E	1.8	2.0	1.6	1.4
ROE (%)	2009E	12.9	0.5	NM	9.9
	2010E	15.0	17.9	15.0	12.1
	2011E	16.3	20.1	15.9	13.5
DY (%)	2009E	2.1	1.8	2.2	2.6
	2010E	2.3	2.2	2.6	2.8
	2011E	2.6	2.7	3.0	3.1
EPS growth (%)	2009E	-15.5	-13.4	-6.0	-12.6
	2010E	24.2	39.8	31.1	30.6
	2011E	20.7	27.9	19.4	20.4
EBIT margin (%)	2009E	14.8	15.6	9.5	10.1
	2010E	14.1	19.1	10.5	11.3
	2011E	15.3	21.4	10.8	12.2
12-mth EPS rev. (%)	1 week	11.3	1.6	4.9	8.1
	4 weeks	23.5	7.0	10.0	16.5

Source: Factset, I/B/E/S, Goldman Sachs Global ECS Research.

Exhibit 3: Compared volatility of our nifty 50 baskets, MSCI EM and MSC World



Source: Datastream, Goldman Sachs Global ECS Research.

Exhibit 4: Global DM BRIC exposure basket (GSSTDM50) constituents

GLOBAL BRIC EXPOSURE BASKET (GSSTDM50)						P/E (x)		Earnings growth (%)		P/B (x)		Dividend Yield (%)		EV / EBITDA (x)		Return on Equity (%)	
Company name	Country	Weights (%)	Exposure to EM	6M ADVT (US$ mn)	Current market cap ($Bn)	2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E
Automobiles & Parts																	
Suzuki Motor	Japan	1.4%	46%	47.7	13.0	26.6	19.5	49.5	36.2	1.4	1.3	0.7	0.7	7.0	6.3	5.2	6.8
Hyundai Motor Co.	Korea	2.3%	30%	124.4	21.2	11.4	10.3	6.2	10.1	1.4	1.2	0.9	0.9	19.5	18.8	12.1	11.9
Hankook Tire	Korea	0.5%	25%	17.4	3.0	10.4	9.5	-0.3	9.8	1.6	1.4	0.8	1.1	11.8	11.3	15.0	14.3
Banks																	
BBVA	Europe	3.7%	NM	798.7	71.0	9.5	8.1	-3.6	16.5	1.4	1.3	4.0	5.6	-	-	14.9	15.8
HSBC	Europe	3.5%	NM	402.0	196.3	18.5	11.8	27.9	56.7	1.6	1.5	3.4	3.9	-	-	8.8	12.9
Standard Chartered	Europe	2.9%	NM	118.2	51.4	13.8	11.4	1.7	20.8	1.9	1.7	2.8	3.2	-	-	13.8	15.2
Basic Resources																	
Newmont Mining Corp. (Hldg. Co.)	US	2.9%	48%	305.5	20.7	16.0	13.7	27.9	16.7	1.9	1.8	0.9	0.9	7.3	6.9	12.1	12.9
Vedanta Resources	Europe	1.4%	73%	61.8	10.0	11.9	7.3	82.3	64.0	2.3	1.7	1.2	1.2	4.7	3.1	19.4	22.9
BHP Billiton Plc	Europe	3.1%	23%	305.4	62.9	13.5	10.8	6.3	25.0	3.3	2.7	3.1	3.2	7.4	6.2	24.2	25.4
Xstrata plc	Europe	2.7%	21%	194.6	46.0	10.8	8.7	43.0	24.2	1.3	1.1	0.6	1.0	7.5	6.0	11.6	12.4
Posco	Korea	2.1%	15%	123.5	36.3	9.0	8.5	49.5	5.6	1.2	1.1	2.0	2.0	6.7	6.3	13.9	13.0
Fortescue Metals Group Ltd.	Australia	1.0%	90%	29.3	10.5	25.3	14.8	7.9	71.0	7.8	5.2	0.0	0.0	13.6	9.0	30.8	35.5
Equinox Minerals Ltd.	Australia	0.7%	75%	6.1	2.4	10.2	5.0	NM	NM	2.0	1.3	0.0	0.0	-	-	19.3	26.2
Macarthur Coal Ltd.	Australia	0.4%	35%	10.0	2.0	16.7	11.2	-13.5	49.6	1.9	1.7	2.7	4.0	11.6	7.9	11.2	15.3
Chemicals																	
Avery Dennison Corp.	US	0.8%	23%	41.1	3.8	12.5	12.2	33.3	2.6	2.7	2.9	2.2	2.3	8.6	8.6	21.6	24.1
Construction & Materials																	
FLSmidth & Co. A/S	Europe	0.8%	47%	24.5	2.9	11.7	13.4	-23.7	-13.1	1.9	1.7	2.6	2.6	7.9	8.6	16.4	13.0
Holcim	Europe	1.8%	34%	84.2	21.8	15.1	11.8	8.1	28.1	1.1	1.0	2.4	2.9	8.6	7.9	7.4	8.8
Food & Beverages																	
Carlsberg	Europe	1.5%	54%	56.1	8.4	11.1	9.4	21.4	18.2	0.9	0.8	1.1	1.3	7.7	7.2	7.8	8.6
Anheuser-Busch InBev	Europe	2.2%	35%	114.7	77.7	15.5	13.6	15.9	14.4	2.5	2.2	1.4	1.7	10.3	9.7	16.1	16.1
Unilever (NV)	Europe	2.9%	25%	160.1	54.4	15.0	13.9	12.0	8.3	4.8	4.2	3.8	4.0	9.6	9.1	32.1	30.5
Diageo	Europe	2.0%	13%	89.0	40.8	13.0	12.0	9.0	8.9	5.4	4.5	3.9	4.1	10.4	9.8	41.8	37.5
Coca-Cola Co.	US	3.5%	14%	545.0	125.4	15.9	14.6	10.6	9.1	5.2	4.9	3.3	3.6	11.8	10.9	32.9	34.0
Healthcare																	
Mylan Laboratories	US	1.5%	24%	112.7	5.0	11.0	9.3	28.2	18.0	1.3	1.1	0.0	0.0	7.4	6.6	12.2	12.2
Pfizer, Inc.	US	3.6%	19%	792.7	141.5	7.8	7.3	11.7	6.7	1.4	1.3	4.3	7.3	3.7	3.7	18.5	18.0
Waters Corporation	US	1.1%	17%	47.1	5.5	15.3	14.0	10.5	9.5	5.2	4.6	0.0	0.0	11.2	10.4	34.3	32.9
Industrial Goods & Services																	
Expeditors Int'l	US	1.7%	58%	77.3	7.1	26.9	23.0	10.3	17.4	4.7	4.2	1.3	1.3	13.3	11.7	17.3	18.4
Boeing Company	US	2.8%	23%	308.5	35.5	11.3	11.5	NM	-1.7	30.3	14.7	3.4	3.5	6.2	6.6	NM	NM
Emerson Electric	US	2.7%	21%	185.0	29.6	18.7	15.6	-2.3	20.4	3.3	3.4	3.4	3.5	9.9	9.1	17.5	21.9
ABB Ltd	Europe	2.7%	34%	162.0	45.5	18.6	15.7	-15.3	18.2	3.2	2.9	2.3	2.4	10.9	9.3	17.1	18.4
EADS	Europe	1.0%	29%	42.9	15.5	11.8	9.7	0.9	22.0	0.8	0.8	1.6	1.6	1.0	0.9	7.1	8.3
Komatsu	Japan	2.4%	39%	120.2	19.1	29.6	18.9	25.2	56.3	2.0	1.8	1.1	1.4	11.2	9.1	6.7	9.7
Hitachi Construction Machinery	Japan	1.1%	52%	39.6	5.1	44.7	18.3	34.4	NM	1.5	1.4	0.7	1.0	11.6	9.7	3.3	7.6
Daikin Industries	Japan	1.3%	40%	46.6	10.0	32.0	17.8	97.5	79.5	1.8	1.7	1.2	1.2	12.5	9.8	5.7	9.4
Kawasaki Kisen	Japan	0.6%	24%	31.6	2.4	NM	39.3	NM	NM	0.7	0.7	0.0	1.1	16.2	8.9	NA	1.9
Oil & Gas																	
Schlumberger Ltd.	US	3.1%	14%	540.7	77.8	23.4	17.6	1.6	33.0	3.6	3.2	1.3	1.3	11.5	9.4	15.5	17.9
Personal & Household Goods																	
Philip Morris Intl	US	3.4%	30%	355.6	94.8	12.9	11.5	16.2	11.7	33.6	NM	4.8	5.6	9.0	8.5	NM	NA
Avon Products	US	2.3%	52%	112.1	13.9	15.1	13.6	28.6	11.1	9.8	5.6	2.7	2.9	9.7	8.9	65.3	41.6
Nike	US	1.8%	29%	214.3	25.0	16.5	14.8	3.7	11.5	3.0	2.7	1.8	1.9	9.8	8.8	18.0	18.3
British American Tobacco	Europe	2.6%	41%	105.8	64.1	11.8	10.9	8.0	8.1	4.3	3.9	5.5	5.9	9.6	9.0	36.2	35.8
LVMH Moet-Hennessy Louis Vuitton	Europe	2.2%	26%	103.0	51.6	17.5	15.4	8.0	13.5	2.3	2.1	2.3	2.5	10.0	9.1	13.0	13.6
Richemont	Europe	1.4%	25%	56.4	15.1	17.9	15.7	-11.4	14.1	2.0	1.8	1.5	1.7	NM	18.4	11.1	11.6
Shiseido	Japan	1.0%	25%	34.7	7.4	22.7	21.6	3.3	5.1	1.9	1.8	3.0	3.0	8.0	7.4	8.3	8.4
Unicharm	Japan	0.6%	15%	23.0	6.5	24.0	21.9	12.6	9.5	2.8	2.5	0.8	0.9	8.3	7.7	11.5	11.3
Real Estate																	
ProLogis	US	1.7%	12%	117.8	5.6	NM	NM	NM	NM	1.0	0.7	5.1	5.1	NM	NM	NA	NA
Technology																	
NVIDIA Corp.	US	2.5%	62%	209.3	6.9	20.1	16.7	NM	20.6	2.6	2.6	0.0	0.0	9.7	-	13.2	15.6
Novellus Systems	US	1.3%	59%	78.4	2.1	15.2	11.2	NM	35.7	1.7	1.5	0.0	0.0	8.2	6.4	10.9	13.6
Ericsson	Europe	2.8%	39%	157.2	31.7	13.7	11.3	36.8	20.7	1.5	1.4	2.7	3.0	6.2	5.5	11.2	12.6
Samsung Electronics	Korea	3.0%	25%	262.9	88.4	10.2	9.6	29.5	5.9	1.6	1.3	0.8	1.0	6.9	6.4	15.3	14.0
LG Electronics	Korea	1.7%	18%	126.9	13.7	7.1	6.7	15.8	5.5	1.5	1.2	0.7	0.9	11.4	10.5	20.5	18.0
Utilities																	
AES Corp.	US	1.9%	68%	89.6	9.0	10.9	10.0	13.8	9.3	NA	NA	0.0	0.0	6.5	6.2	NA	NA
Median			**29%**	**112**	**17**	**15.1**	**12.0**	**11.1**	**15.5**	**1.9**	**1.7**	**1.5**	**1.7**	**9.6**	**8.7**	**14.9**	**14.7**

* Sales for US, Europe, Korea and Australia, Operating Income for Japan

Source: Factset, I/B/E/S, Goldman Sachs Global ECS Research.

Exhibit 5: EM NIFTY 50 basket (GSSTEM50) constituents

EM NIFTY 50 (GSSTEM50)						Price to Earnings		Earnings Growth		Price to Book		Dividend Yield		EV / EBITDA		Return on Equity	
Company name	Country	Weights (%)	Rating	Liquidity ($mn)	Current market cap ($bn)	2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E
Automobiles & Parts																	
Hero Honda Motors	India	1.2	B	19	6.5	14.5	12.8	18.1	12.6	4.9	3.9	1.5	1.7	0.1	0.1	34.0	30.0
Banks																	
China Constr Bank (H)	China	2.9	B*	297	191.6	10.4	8.6	21.6	20.8	2.2	1.9	3.6	4.5	NM	NM	21.3	22.2
ICBC (H)	China	2.8	B*	253	65.2	11.5	9.7	22.9	18.5	2.4	2.1	3.5	4.3	NM	NM	20.5	21.2
Itau Unibanco Holding	Brazil	2.7	N	168	46.3	13.2	10.8	32.9	21.4	2.8	2.5	1.9	2.3	NM	NM	21.1	23.0
Sberbank	Russia	3.3	B	889	50.0	18.5	8.3	NM	NM	1.9	1.5	0.0	0.6	NM	NM	10.1	18.3
State Bank of India	India	2.2	B	115	29.5	12.6	9.8	13.6	27.9	1.9	1.7	1.4	1.5	NM	NM	15.5	17.5
Basic Resources																	
Angang Steel (H)	China	1.9	B	40	2.0	15.8	11.8	NM	34.2	1.6	1.5	1.1	2.6	8.3	6.9	10.1	12.4
China Shenhua Energy (H)	China	2.3	B	79	15.3	17.2	16.2	10.9	6.4	3.2	2.8	1.8	1.9	5.3	4.9	18.3	17.0
Companhia Siderurgica Nacional	Brazil	3.0	B	86	27.5	17.0	10.9	40.0	56.0	4.6	2.8	5.2	1.7	4.9	3.0	26.9	25.9
Jiangxi Copper (H)	China	2.0	N	65	3.2	11.6	9.2	56.8	26.7	1.8	1.5	1.0	NM	7.6	6.3	15.2	16.2
JSW Steel	India	2.5	B	48	2.8	7.6	5.6	42.1	36.1	1.4	1.0	1.1	1.8	0.1	0.1	17.8	18.4
NLMK	Russia	1.3	N	12	16.2	13.0	9.2	NM	42.5	1.5	1.4	0.0	1.8	NM	NM	11.7	14.9
Sterlite Ind India	India	2.1	B*	61	13.3	11.7	9.9	42.1	18.5	1.5	1.5	0.5	0.5	0.2	0.1	13.2	14.8
Vale	Brazil	2.7	B	552	86.9	16.0	13.9	59.0	15.0	2.5	2.2	1.8	1.8	4.4	3.7	15.5	15.8
Votorantim Celulose e Papel	Brazil	1.4	B	17	5.7	11.9	11.3	45.3	4.9	1.4	1.4	0.0	0.0	2.3	2.0	12.1	12.7
Construction & Materials																	
China National Building Mat	China	1.7	B	31	2.6	11.8	10.7	31.5	10.8	2.3	1.9	0.5	0.7	5.9	5.2	19.2	17.6
Jaiprakash Associates	India	2.1	B	97	6.3	21.1	15.6	15.8	35.8	3.4	2.9	0.4	0.4	0.8	0.7	16.0	18.6
Larsen & Toubro	India	1.8	N	91	20.0	22.5	18.0	19.8	25.2	4.6	3.9	0.8	0.8	0.2	0.1	20.5	21.5
Financial Services																	
Visanet	Brazil	2.1	B	85	13.4	13.5	11.9	15.6	13.5	NM	NM	6.0	7.4	9.8	9.1	NM	NM
Housing Dev Finance	India	1.5	N	56	16.2	25.2	20.8	17.7	21.1	4.6	4.0	1.2	1.4	0.1	0.1	18.3	19.4
Food & Beverage																	
China Mengniu Dairy	China	1.0	B*	22	4.7	20.4	16.9	19.2	20.7	3.3	2.8	0.8	1.1	10.0	8.2	16.2	16.8
Want Want China	China	0.7	B	9	7.7	19.4	15.8	30.2	23.0	6.3	5.3	2.2	2.9	NM	NM	32.3	33.7
Health Care																	
Mindray Medical Intl (ADR)	China	1.3	N	22	2.4	22.3	17.0	27.3	31.1	4.8	3.8	0.7	0.9	10.1	8.0	21.5	22.3
Industrial Goods & Services																	
China Shipping Dev (H)	China	1.8	B	19	1.8	14.0	10.8	72.2	29.1	1.3	1.2	0.8	1.4	13.5	11.0	9.6	11.2
Insurance																	
China Life Insurance (H)	China	2.4	N	231	34.8	25.2	21.5	15.0	17.4	3.7	3.2	1.0	1.2	NM	NM	14.6	14.7
Oil & Gas																	
Cairn India	India	1.8	B	28	10.7	11.8	7.9	NM	49.3	1.4	1.3	0.0	0.7	0.6	0.4	11.7	16.0
China High Speed Transmission Equi	China	1.1	B	15	2.6	15.6	12.5	37.9	24.4	3.4	2.9	1.5	1.9	13.4	10.6	21.8	23.0
CNOOC	China	3.1	B*	138	66.3	12.1	10.7	35.0	12.8	2.2	1.9	2.5	3.0	11.7	10.4	18.4	18.0
Gazprom	Russia	3.2	B	263	149.9	6.5	4.6	14.8	41.9	0.8	0.7	1.0	1.2	NM	NM	12.2	15.3
Novatek	Russia	2.1	B	23	15.8	13.7	11.5	57.0	19.1	3.6	2.8	1.4	2.1	NM	NM	26.2	24.2
Petrobras	Brazil	3.5	B	649	122.9	25.8	25.3	28.5	1.9	4.8	4.8	1.0	0.8	1.4	1.3	18.8	19.0
Reliance Ind	India	2.8	B*	220	69.8	13.4	11.1	26.5	20.9	2.2	1.9	NM	0.8	0.1	0.1	16.4	17.1
Personal & Household Goods																	
Belle Intl	China	1.1	B*	13	8.3	19.6	16.8	19.0	16.4	3.3	2.8	1.1	1.4	NM	NM	16.6	16.6
ITC (IN)	India	1.4	N	32	20.8	22.3	18.9	16.8	17.6	5.5	4.8	1.6	1.9	1.1	1.0	24.8	25.2
Real Estate																	
China Overseas Land & Inv	China	1.8	N	60	17.2	16.2	12.8	29.2	26.7	2.8	2.4	1.0	1.3	10.1	8.5	17.5	19.0
PDG Realty	Brazil	1.6	B	17	3.2	10.8	8.7	44.1	24.9	1.0	2.0	0.9	2.5	10.6	8.8	9.1	22.7
Unitech	India	2.3	B*	158	4.1	18.1	13.0	-7.6	39.2	1.7	1.6	0.1	0.2	2.4	1.9	9.6	11.9
Retail																	
China Dongxiang	China	1.1	B	14	3.4	13.5	11.3	17.8	18.8	2.7	2.4	NM	4.1	NM	NM	20.1	21.0
Localiza Rent A Car S/A	Brazil	1.2	B	8	2.2	16.9	13.5	93.2	25.4	4.2	3.3	0.7	1.4	6.7	5.6	24.9	24.7
Magnit	Russia	0.4	B	4	5.5	16.5	11.7	31.6	41.0	3.8	2.9	0.2	0.2	NM	NM	23.3	25.1
X5 Retail	Russia	1.1	B	8	6.8	20.8	15.2	100.0	36.7	3.1	2.6	0.0	0.0	5.6	4.3	14.7	16.9
Technology																	
Baidu.com (ADR)	China	3.2	B*	668	10.3	43.0	30.7	48.5	40.2	NM	9.4	0.0	0.0	1.2	0.8	31.5	30.8
Lenovo	China	2.0	B*	23	5.4	25.0	16.6	NM	50.7	3.5	3.1	NM	0.9	NM	NM	13.9	18.7
Tencent	China	2.0	B	58	31.3	31.0	25.3	38.8	22.6	NM	8.5	0.4	0.5	3.6	2.8	39.4	33.5
Telecommunications																	
China Mobile	China	2.7	B	303	191.0	11.3	10.7	1.4	5.3	2.3	2.0	3.8	4.0	1.5	1.4	20.0	18.7
Mobile TeleSystems (ADS)	Russia	2.8	B	96	19.0	9.4	8.2	23.2	14.9	3.4	3.1	5.1	7.2	1.8	1.6	36.3	38.0
Vimpel Communications (ADS)	Russia	2.9	B	96	19.2	10.0	8.6	48.8	16.8	2.8	2.4	2.9	4.8	4.0	3.7	27.7	27.7
Vivo	Brazil	1.6	B	13	6.9	14.4	10.0	52.1	43.0	1.8	1.6	2.9	3.7	1.4	1.3	12.6	15.7
Utilities																	
China Resources Power	China	1.1	B*	22	9.8	12.9	11.1	19.0	16.4	1.8	1.7	2.0	2.4	6.7	5.6	14.3	14.9
CPFL Energia S.A.	Brazil	1.4	B	11	8.7	10.2	8.8	21.7	16.9	2.9	2.9	7.6	9.2	2.9	2.5	28.7	32.8
Median				**56.7**	**12.0**	**14.4**	**11.4**	**28.5**	**21.4**	**2.8**	**2.4**	**1.1**	**1.5**	**3.8**	**2.9**	**18.3**	**18.7**

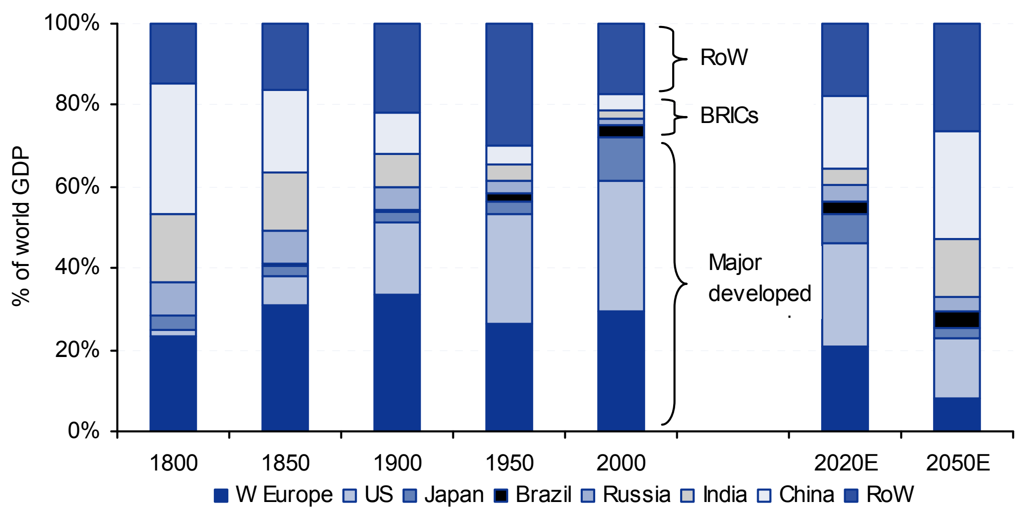
Source: Factset, I/B/E/S, Goldman Sachs Global ECS Research.

The BRICs in the global economy

Since 2001, we have focused on the increasing importance of the BRICs economies, both as a transformational dynamic within the global economy and as an investment opportunity. If anything, the credit crunch has accelerated the rebalancing of global economic activity as savings increase in the developed economies, while there is a simultaneous rise in consumption in the BRICs. This results in a significant divergence in growth rates between developed and emerging regions. The realignment process presents one of the most important market opportunities both by investing directly in emerging markets and via those companies within the developed economies that are most geared towards BRICs demand.

Based on long-term data published by the OECD, Brazil, Russia, India and China made up more than 50% of world GDP back in 1800. Although these numbers are only estimates, they show that the current status in which Western Europe, the US and Japan enjoy an economic leadership is an anomaly in the long sweep of history. The current rise of the BRICs economies can be seen as a reversal of the trend that started with the first Industrial Revolution. Based on GS estimates, we expect the BRICs economies to account for some 50% of global GDP by 2050. If anything, the current crisis seems to be accelerating this trend.

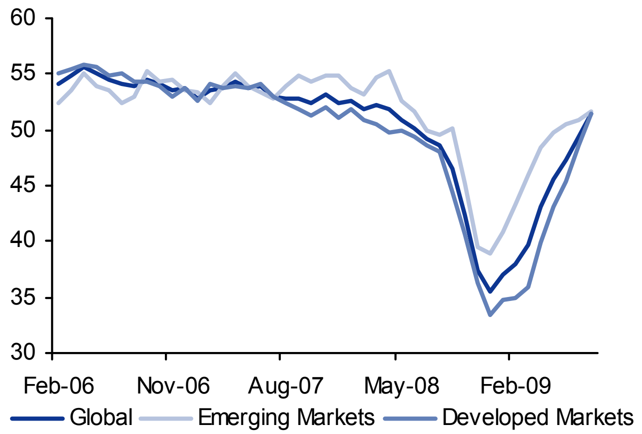
Exhibit 6: Major developed countries have not always been dominant
Share of global GDP by region, 2020 and 2050 are based on Goldman Sachs estimates



Source: OECD, Goldman Sachs Global ECS Research.

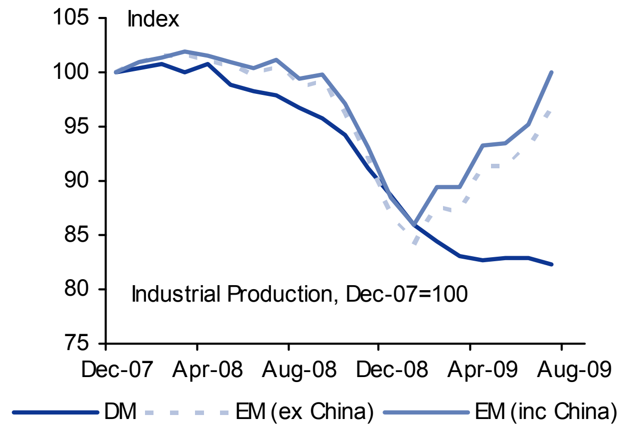
The economic downturn of the past two years, the effects of which will likely persist through the coming years, has accelerated that long-term economic realignment. Indeed, since the beginning of the crisis, major emerging economies have fared far better than most developed ones. While there was no real differentiation between developed and emerging countries in the downturn, the same is not true on the way up. Although surveys have started to bounce off their lows in all regions, hard data are far better in emerging markets so far (Exhibits 7 and 8).

Exhibit 7: PMI data have improved across regions



Source: Haver analytics, Goldman Sachs Global ECS Research.

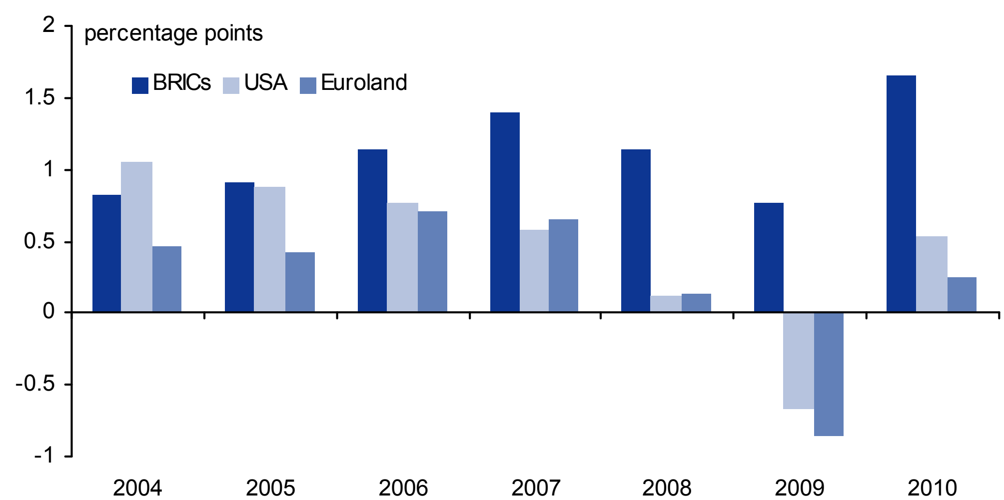
Exhibit 8: But hard data have remained lackluster in DM
IP data



Source: Haver analytics, Goldman Sachs Global ECS Research.

The result has been a bifurcation in global economic growth across regions. During the early part of the decade, the main regions of the US, Euroland and BRICs contributed similar proportions to global economic growth. In recent years, their contributions have diverged; since 2005, the BRICs economies have already become the dominant drivers of global GDP growth (Exhibit 9).

Exhibit 9: The BRICs has become the main contributor to growth
In US$ terms, 2009 and 2010 based on GS forecasts



Source: Goldman Sachs Global ECS Research.

Furthermore, compared with the consensus, our most upbeat views are in the BRICs and, more specifically, for China. For 2010, we are 240bp above consensus for China and 160bp above for BRICs (Exhibit 10). The potential for positive revisions in the BRICs region should increase the market focus on these countries.

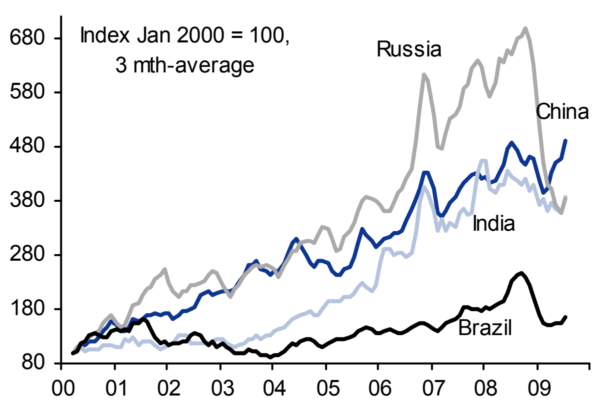
Exhibit 10: Goldman Sachs and consensus GDP forecasts

	2009E			2010E		
	Goldman Sachs	Consensus	GS vs. consensus	Goldman Sachs	Consensus	GS vs. consensus
China	9.4	8.4	100 bps	11.9	9.5	240 bps
BRICs	5.1	4.8	30	9	7.4	160
UK	-4.2	-4.3	10	1.9	1.3	60
Europe	-3.7	-4.0	30	1.4	0.9	50
World	-0.8	-0.9	10	4.1	3.7	40
India	5.8	6.1	-30	7.8	7.5	30
Euroland	-3.9	-3.9	0	1.2	1.1	10
Japan	-5.7	-5.7	0	1.4	1.5	-10
USA	-2.5	-2.5	0	2	2.6	-60

Source: Goldman Sachs Global ECS Research, Consensus Economics October 2009.

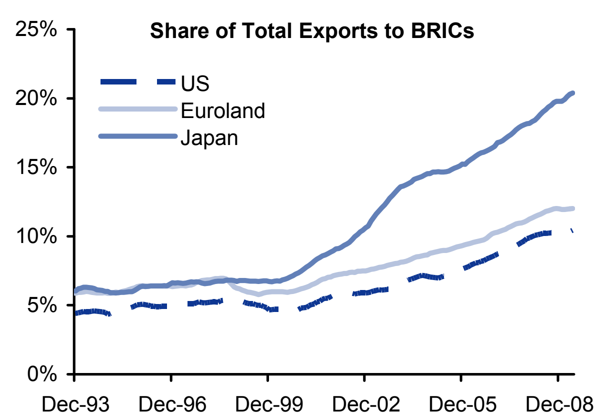
This tangible improvement in emerging economies, especially in India and in China, has already been reflected in trade data. For example, the latest figures for Germany show how exports to these two countries have picked up and are now close to or above 2007 levels (Exhibit 11). But the trend is evident across all the major regions (Exhibit 12).

Exhibit 11: German exports to China are back to pre-Lehman level



Source: Bundesbank, Goldman Sachs Global ECS Research.

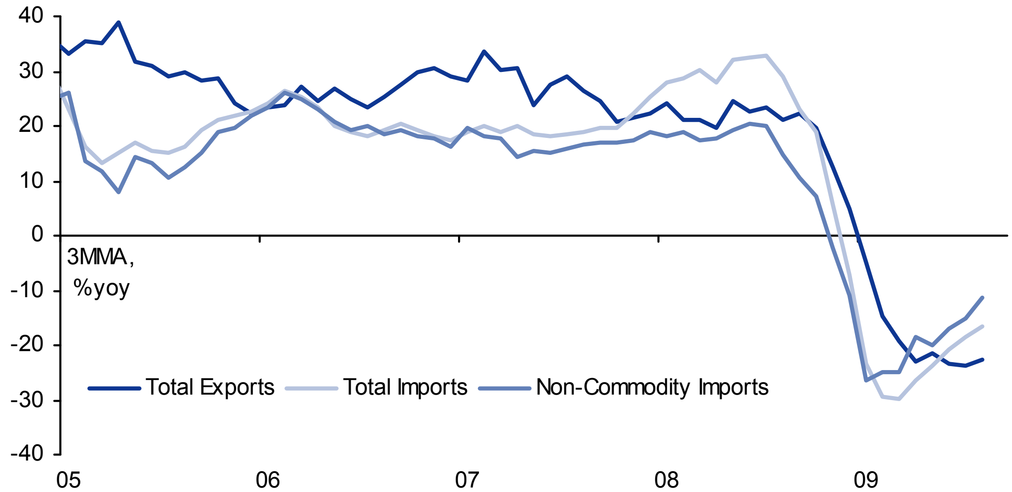
Exhibit 12: The rise in exports to BRICs
Steady growth over the past decade



Source: IMF, Goldman Sachs Global ECS Research.

The global rebalancing in consumption is evident in the Chinese trade data too. While export growth has remained very subdued, imports are growing from a very low base (Exhibit 13). What is particularly striking about this is that it is not just commodities that are responsible for rising imports but manufactured and consumer goods too.

Exhibit 13: Chinese Exports and Imports
Imports of non commodities are rising sharply

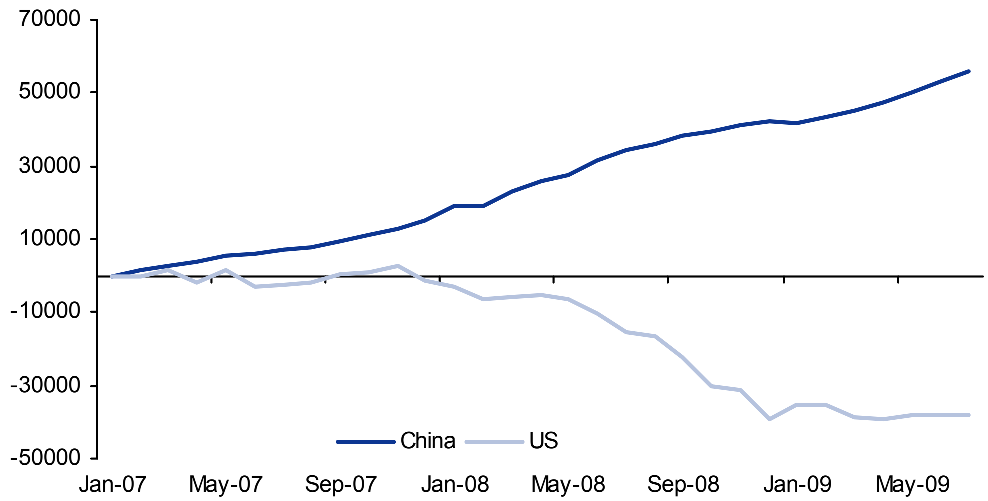


Source: Haver analytics, CEIC, Goldman Sachs Global ECS Research.

BRIC consumption: an increasing source of growth

While the economic growth story is well understood, we are constantly challenged by investors who argue that the rise in BRICs consumption is a nice theory but is not yet a reality. The dominance of the US consumer, they argue, means that any rise in BRICs consumption is insufficient to support global growth. But as Jim O'Neill has emphasized, the rise in Chinese retail sales alone, in dollar terms, has more than offset the contraction of US retail sales since the start of 2007 (Exhibit 14).

Exhibit 14: Recent trend in real retail sales
Non-cumulative monthly change since January in real retail sales (in January 2007, US$ mn)

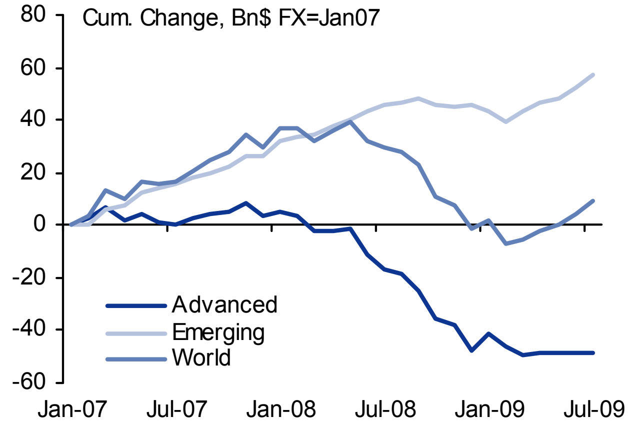


Source: Haver analytics, Goldman Sachs Global ECS Research.

The emerging middle class: a structural story

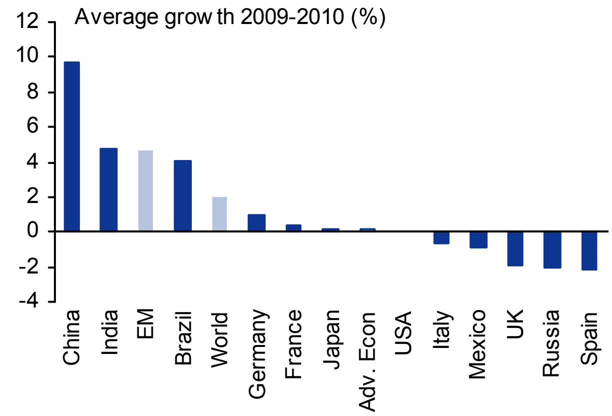
Our Economists expect consumer spending in EM to keep on growing. After growth of 2.8% in 2009, they forecast EM consumer spending to grow 6.5% in 2010. This compares with a flat consumer spending figure (+0.2% on average) for advanced economies (Exhibit 16). We expect China, India and Brazil consumption to increase by 10.5%, 6% and 4%, respectively, in 2010. For this reason, we expect companies in the US, Japan and Europe that can sell into the BRICs to perform very well.

Exhibit 15: Growth in EM retail sales has offset weak sales elsewhere



Source: National sources, Goldman Sachs Global ECS Research.

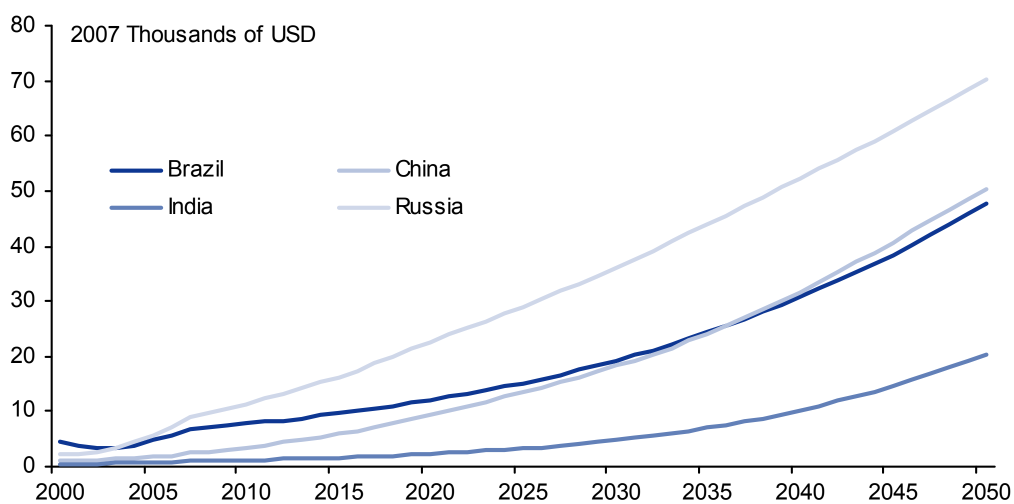
Exhibit 16: EM consumption should be strong in 2010



Source: Goldman Sachs Global ECS Research.

This exciting story is not just a short-term opportunity but rather a prolonged and sustainable theme. This growth of the middle class in emerging economies (defined as those with incomes between $6,000 and $30,000 in PPP terms) is set to continue, if not accelerate, over the next two decades and is likely to be critical to how the world is changing. As Dominic Wilson and Raluca Dragusanu, argued in Global Economic Paper 170 of July 7, 2008, *The Expanding Middle: The Exploding World Middle Class and Falling Global Inequality,* the pace of expansion in the emerging middle class is likely to continue growing until a peak in about a decade. **As a result, two billion people could join the global middle class by 2030, or around 30% of the world's population.**

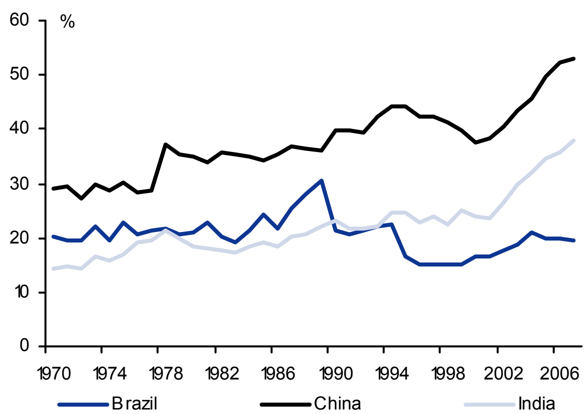
Exhibit 17: BRICs income per capita expected to continue to rise



Source: Goldman Sachs Global ECS Research.

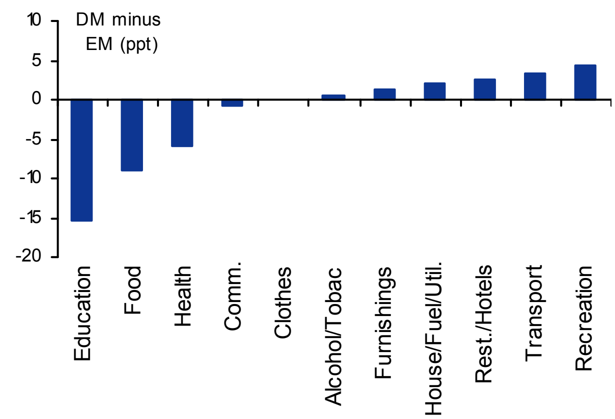
Furthermore, savings rates remain very high across Emerging economies (Exhibit 18). As a consequence, currently EM consumption as a share of income is higher in essential goods relative to the developed economies (Exhibit 19). This is likely to shift as more safety nets, such as healthcare, become more available through state schemes.

Exhibit 18: Persistently high savings rates have been the BRIC norm
Personal savings rate



Source: CEIC, Haver, Goldman Sachs Global ECS Research.

Exhibit 19: EM consumption is tilted towards necessities
Spending as a % of all personal consumption



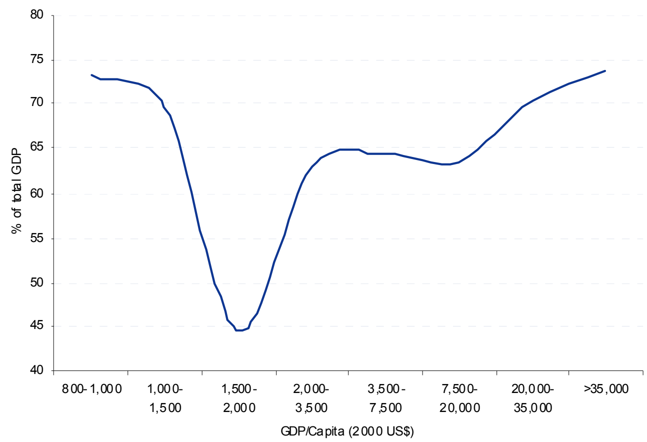
Source: World Bank, Goldman Sachs Global ECS Research.

Ranking the national accounts of around 100 large economies according to their wealth levels, shows the same conclusions. The very poor countries have a very high share of consumption as a % of GDP, as the industrial and housing sectors are almost non-existent. As countries pass through industrialization and GDP per capita rises to around US$1,000-3,000, savings and investments typically rise and a fall in the share of consumption within total GDP is typically observed. Beyond that level of wealth, the share of consumption in total GDP starts to rise as domestic demand becomes a more important engine of growth (Exhibit 20).

China and India are close to the nadir of that trajectory, within the US$1,000-3,000 per capita range mentioned above. Brazil and Russia already have higher levels of GDP per capita and commensurately higher dependence on consumption and lower savings rates.

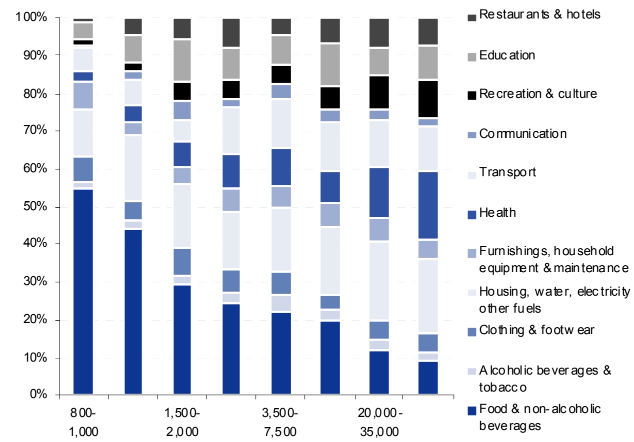
This evolution in the savings pattern is also accompanied with a shift towards more discretionary product categories. The richer people get, the more they invest in discretionary goods (Exhibit 21)

Exhibit 20: Emerging economies will become more consumer oriented as they develop …
Share of consumption into total GDP, average of countries in each wealth band



Source: National Accounts, World Bank.

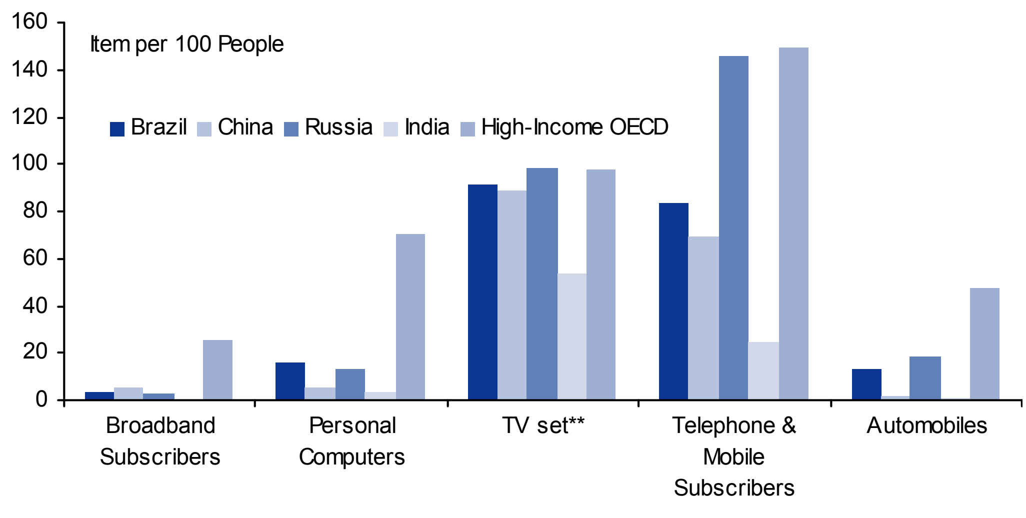
Exhibit 21: …and consumption will become more discretionary
Share of consumption directed to major categories, averages of countries in each wealth band



Source: National Accounts, World Bank.

This acceleration in demand potential is reflected in the penetration of different goods (number of goods per 100 people) in the BRICs economies. With the exception of Russia, this remains very low for most non essential consumer durables. Among the BRICs, Russia is the most mature consumer market, followed by Brazil, reflecting their higher wealth levels.

Exhibit 22: Penetration of goods is still low in BRIC, except for Russia
Most recently available data



Source: National Sources, World Bank.

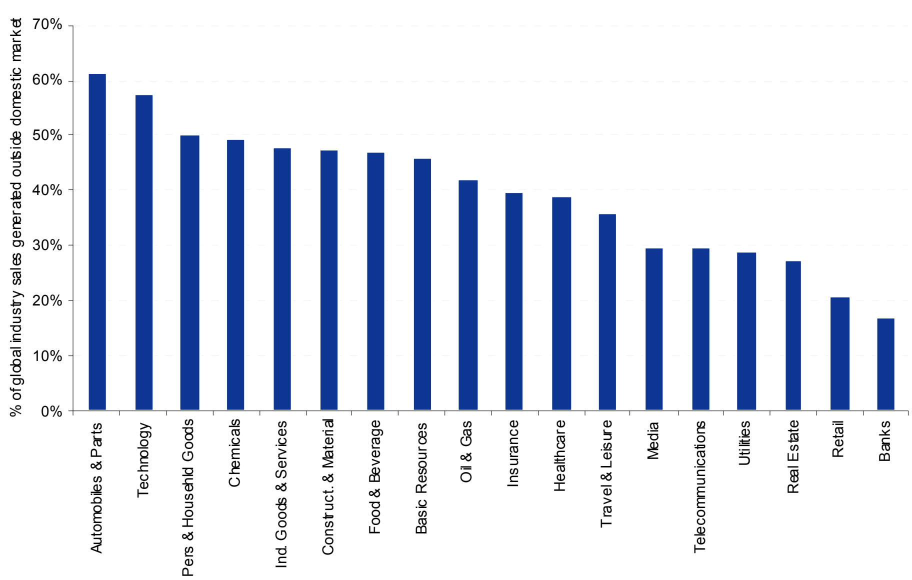
The changes that these trends imply in domestic consumption patterns in BRICs economies have significant implications for the types of products that the BRICs import, with the import share of low valued added goods falling. The import share of agricultural products has already fallen across the board from 1995 to 2007, as BRICs consumers slowly increased their imports of higher value added goods, such as cars and office and telecom equipment.

Russia's composition of imports has changed the most, with the import share of cars rising sharply from 5% in 1990 to 15% in 2007 and the share of agricultural products falling from 12% to 6% over the same period. In China, the import share of office & telecom equipment has increased dramatically since the late 1990s. China's import share of automotive products remains low at 2.5%, compared with 6.8% in Brazil and 14.7% in Russia, but is changing fast. In August, China took over the US as the world's single biggest car market. In September, China's auto sales reached one million units, up 83.6%yoy and 42% over the first nine months of 2009.

This should benefit both global multinational companies as well as local players. The extent to which increases in BRICs demand results in market growth for developed market vs. domestic companies will vary across sectors. In sectors where companies compete in global markets, well positioned developed market players will benefit, whereas in more regionally segregated markets, domestic players are likely to be better placed to benefit from that growth. Exhibit 23 assesses the level of international competition in different sectors through comparison of the share of total industry sales generated outside companies' home markets.

For instance, a few major companies dominate the auto sector. As can be seen on Exhibit 23, a majority of autos sales are generated outside companies' domestic markets and we expect established autos companies to benefit from strong demand in emerging markets. A similar case can be made for personal household goods and, more particularly, luxury goods. These companies have a worldwide market and enjoy strong brands that make them attractive to the growing emerging markets middle class. In sectors like banks, retail, real estate or travel & leisure, where most of the sales tend to be domestic, local companies should emerge as the main beneficiaries.

Exhibit 23: Consumer oriented sectors are less international than industrial sectors
% of global industry sales generated outside companies' domestic markets



Source: Datastream.

Exhibit 24: Consumer-oriented companies in our baskets

DM Nifty 50 (GSSTDM50)	EM Nifty 50 (GSSTEM50)
Automobiles & Parts	
Suzuki Motor	Hero Honda Motors
Hyundai Motor Co.	
Hankook Tire	
Food & Beverages	
Carlsberg	China Mengniu Dairy
Anheuser-Busch InBev	Want Want China
Unilever (NV)	
Diageo	
Coca-Cola Co.	
Healthcare	
Mylan Laboratories	Mindray Medical Intl (ADR)
Pfizer, Inc.	
Waters Corporation	
Personal & Household Goods	
Philip Morris Intl	Belle Intl
Avon Products	ITC (IN)
Nike	
British American Tobacco	
LVMH Moet-Hennessy Louis Vuitton	
Richemont	
Shiseido	
Unicharm	
Retail	
	China Dongxiang
	Localiza Rent A Car S/A
	Magnit
	X5 Retail
Technology	
NVIDIA Corp.	Baidu.com (ADR)
Novellus Systems	Lenovo
Ericsson	Tencent
Samsung Electronics	
LG Electronics	
Telecommunications	
	China Mobile
	Mobile TeleSystems (ADS)
	Vimpel Communications (ADS)
	Vivo

Source: Datastream, Goldman Sachs Global ECS Research.

BRICs infrastructure remains a key theme

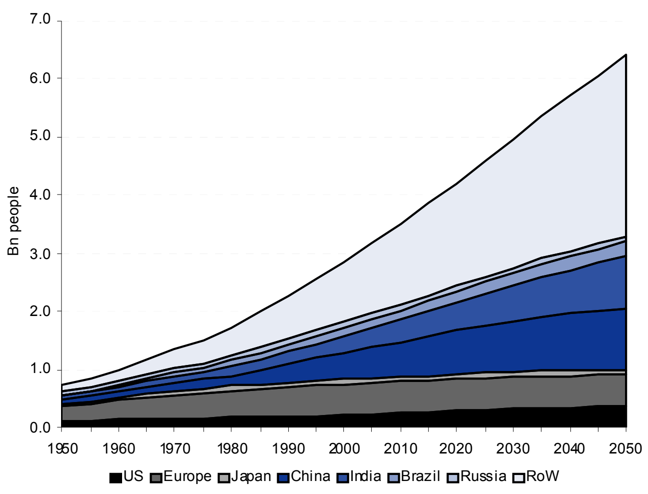
While domestic consumption is likely to become an increasingly important element of the "BRICs story", infrastructure investment in those countries will continue to grow quickly. Indeed, continued investment in infrastructure will be necessary to support that growth in consumption.

India's steel demand is now higher than that of Japan and our Economists estimate that India requires US$1.7 tn investment over the next decade to meet its infrastructure needs (see Global Economics Paper 187: *India Can Afford Its Massive Infrastructure Needs*, September 16, 2009). This sum includes not just power, roads and telecom but all infrastructure needs, taking into account ports, airports, irrigation, railways and water supply and sanitation. These investments are key for India to keep pace with economic growth and urbanization. The major categories of spending will be roads (US$427 bn), power (US$287 bn), railways (US$281 bn) and irrigation (US$272 bn).

China and India are set to dominate infrastructure demand over the next decade. However, Brazil is also investing significantly in power transmission, pipelines, hydropower and telecoms to reduce infrastructure bottlenecks and take full profit from its potential.

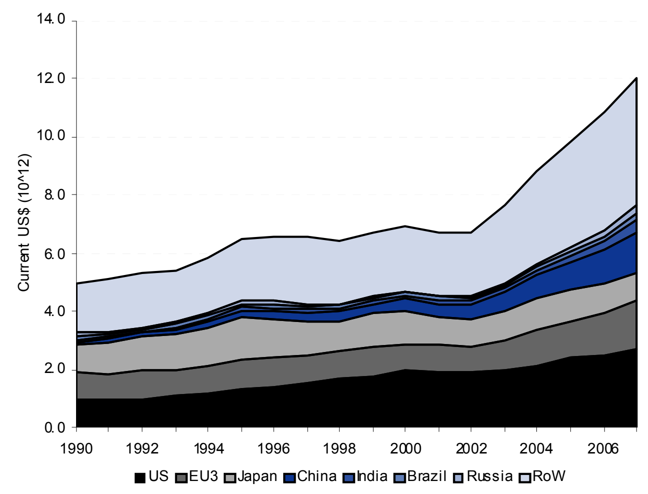
Rising investment in infrastructure is underpinned by continued rapid growth in urban populations in emerging economies. The UN population division forecasts over one billion new urban dwellers by 2020, under 10% of which will be located in the developed economies of the US, Japan or Europe. Infrastructure investment is rising in parallel.

Exhibit 25: Rapid urban population growth in emerging economies...
Urban population by region



Source: UN Population Division.

Exhibit 26: ...driving increased infrastructure spending
Gross fixed capital investment by region

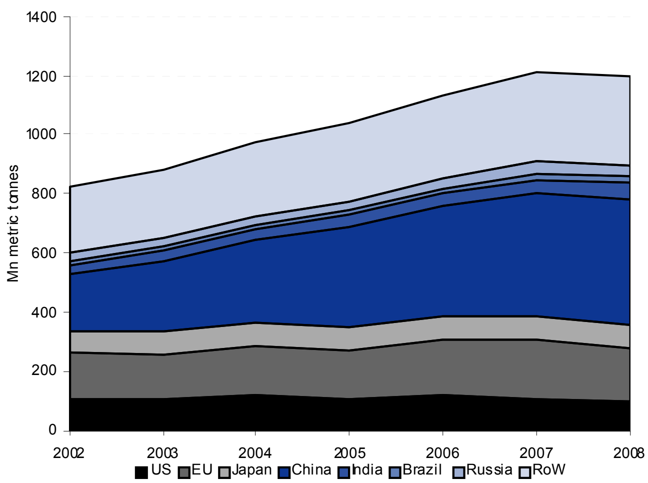


Source: World Bank, Goldman Sachs Research estimates.

That growth is driving continued demand for resources and infrastructure equipment, to the benefit of global capital goods and basic resources players. These companies, based in developed markets, are obvious potential beneficiaries from this boom in investment. Their knowledge and expertise are particularly necessary in technically demanding projects.

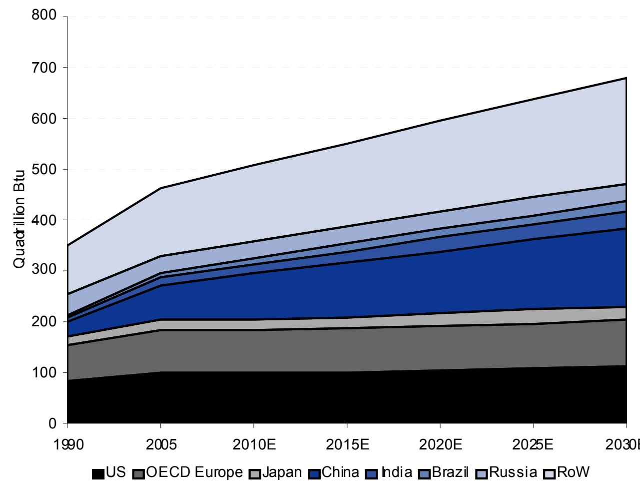
However, local players are also emerging in many industrial sectors. A combination of advances in technology among companies in those countries, the strength of relationships many companies have with governments and their increasing scale and ability to compete for major projects are leading to the emergence of domestic players in many infrastructure and industrial markets, crowding out multinationals that are unable to bring technology or other leadership. For instance, having been a growth market for developed market companies in the early part of this decade, the Chinese market for power generation equipment is now almost entirely dominated by three domestic companies: Dongfang Electrical Machinery, Shanghai Electric Group and Harbin Power Equipment.

Exhibit 27: BRICs have become the major steel consumers
Apparent steel consumption by region



Source: IISI.

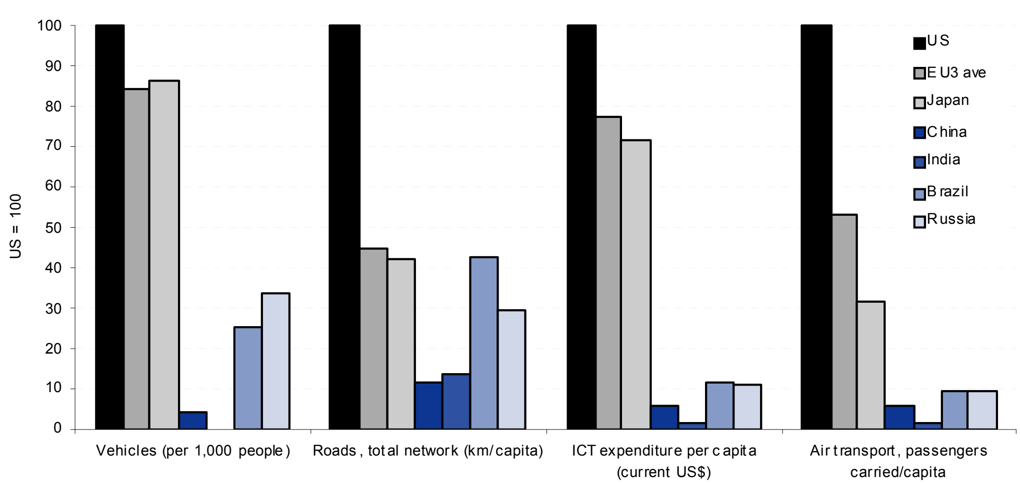
Exhibit 28: ...and consumers of primary energy
Total primary energy consumption



Source: EIA.

Infrastructure investment in BRICs economies has far further to run. Penetration of infrastructure indicators (Exhibit 29) demonstrates the differences between emerging and developed economy levels across a range of measures. As populations in those economies expand, urbanize and become wealthier, that investment is likely to continue apace.

Exhibit 29: BRICs economies still require significant infrastructure investment
Penetration of infrastructure indicators in developed and BRICs economies, most recent reported year



Source: World Bank, Goldman Sachs Research estimates.

Exhibit 30: Infrastructure-oriented companies in our baskets

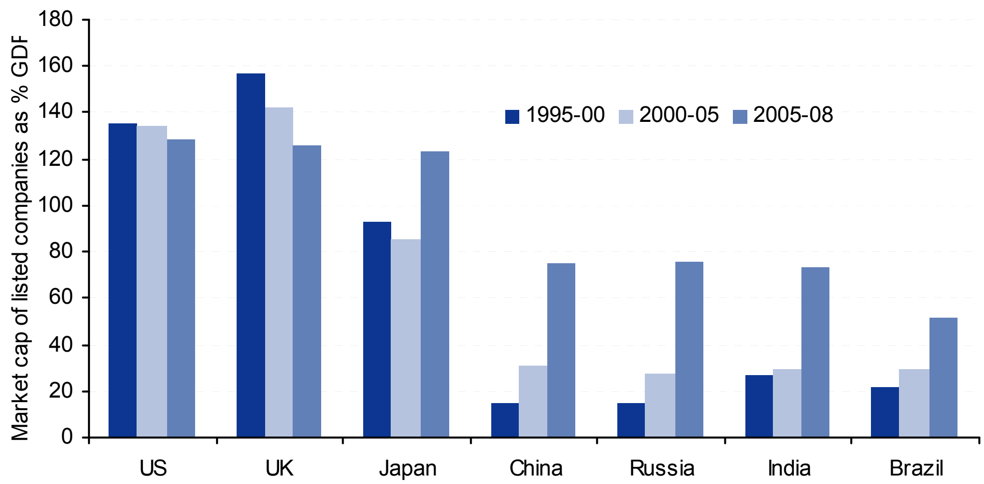
DM Nifty 50 (GSSTDM50)	EM Nifty 50 (GSSTEM50)
Basic Resources	
Newmont Mining Corp. (Hldg. Co.)	Angang Steel (H)
Vedanta Resources	China Shenhua Energy (H)
BHP Billiton Plc	Companhia Siderurgica Nacional
Xstrata plc	Jiangxi Copper (H)
Posco	JSW Steel
Fortescue Metals Group Ltd.	NLMK
Equinox Minerals Ltd.	Sterlite Ind India
Macarthur Coal Ltd.	Vale
	Votorantim Celulose e Papel
Chemicals	
Avery Dennison Corp.	
Construction & Materials	
FLSmidth & Co. A/S	China National Building Mat
Holcim	Jaiprakash Associates
	Larsen & Toubro
Industrial Goods & Services	
Expeditors Int'l	China Shipping Dev (H)
Boeing Company	
Emerson Electric	
ABB Ltd	
EADS	
Komatsu	
Hitachi Construction Machinery	
Daikin Industries	
Kawasaki Kisen	
Oil & Gas	
Schlumberger Ltd.	Cairn India
	China High Speed Transmission Equip
	CNOOC
	Gazprom
	Novatek
	Petrobras
	Reliance Ind
Utilities	
AES Corp.	China Resources Power
	CPFL Energia S.A.

Source: Datastream, Goldman Sachs Global ECS Research

BRICs equity markets have not yet reached a critical mass

BRICs equity markets have expanded rapidly since the mid-1990s but remain relatively immature compared to the sizes of their economies. With the tailwind of rising domestic demand, increasing reliance on capital markets as a source of funding and increasing competitiveness, we expect the equity markets of those countries to deepen further.

Exhibit 31: BRICs equity markets will deepen significantly in coming years
Market cap/GDP across BRICs and major developed economies

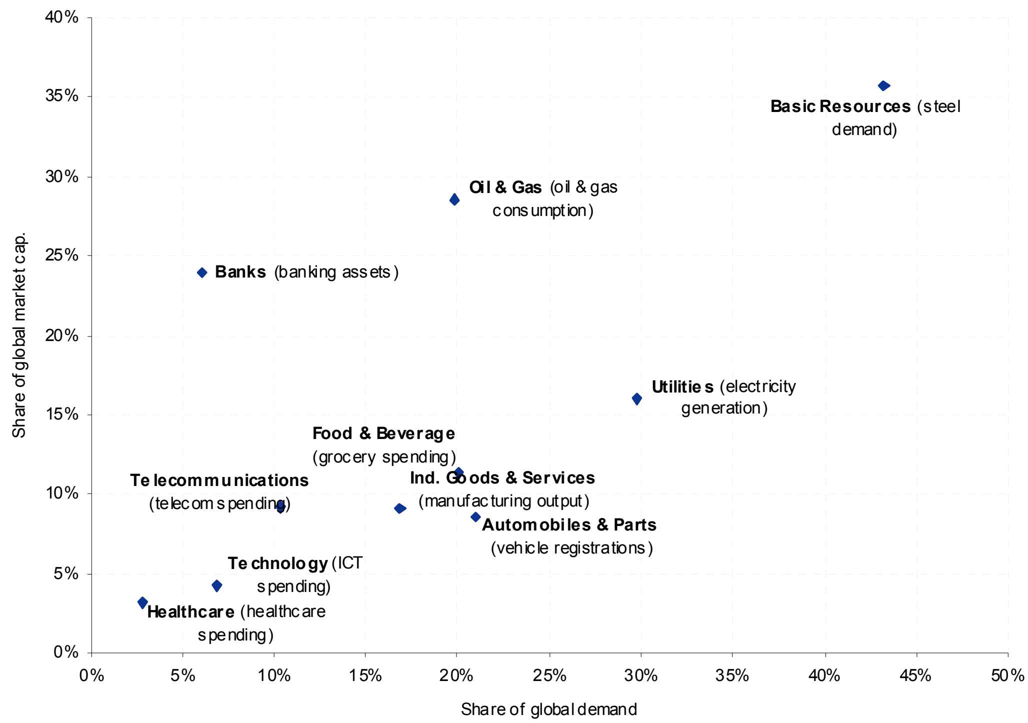


Source: World Bank, Datastream.

Across a range of sectors, BRICs equities remain under-represented in global equity markets, relative to the importance of demand from those countries. Exhibit 32 plots the share of BRICs-listed equities in global equity indices against the importance of demand from those countries, in representative product categories. The values of BRICs companies in the global Oil & Gas and Banks sectors exceed the importance of their domestic markets to underlying demand but in every other sector, BRICs companies remain under-represented in global indices.

Exhibit 32: BRICs listed companies are under-represented relative to their importance to demand

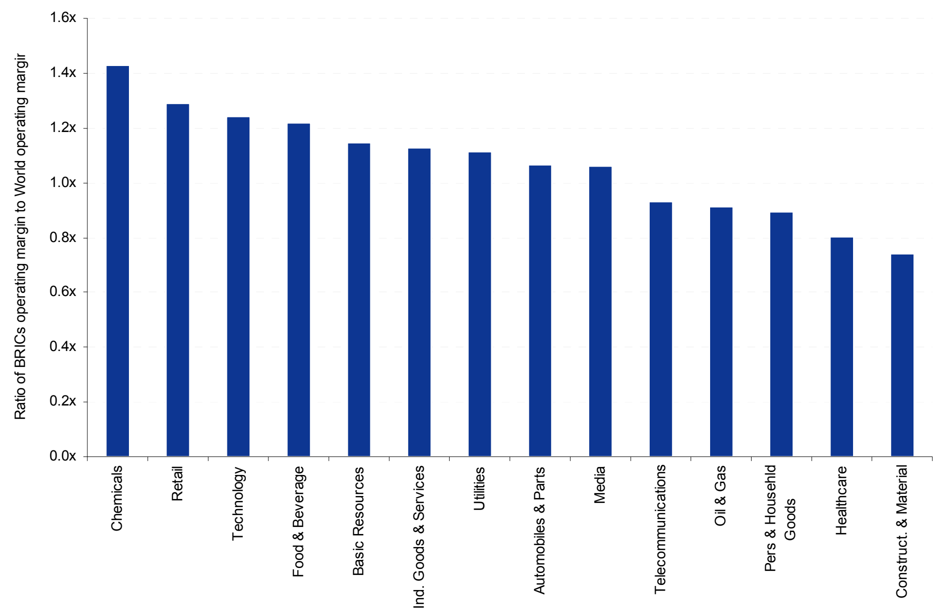
BRICs share of global market capitalization and indicative measures of demand



Source: DataStream, World Bank, World Development Indicators, Global Insight, Euromonitor, World Steel, BP Statistical Review of World Energy, Bankscope, OECD, Goldman Sachs Research estimates.

This anomaly should disappear over time as BRICs-based companies become increasingly competitive domestically and internationally in many industries. Operating margins of BRICs-listed companies are already higher than the averages of their global peers in many major industries (Exhibit 33).

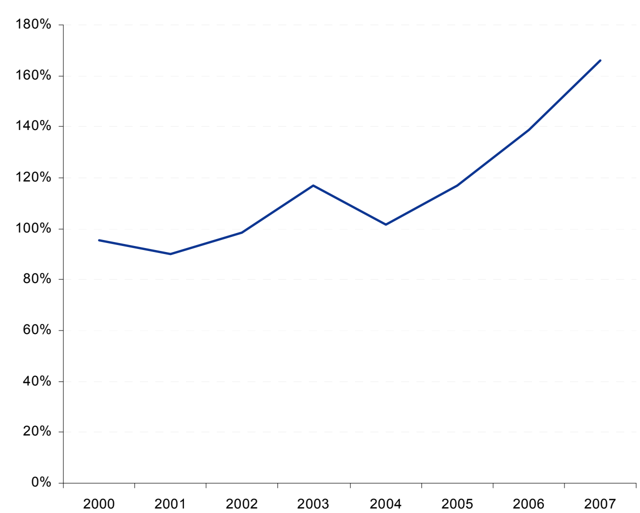
Exhibit 33: Operating cost differences are significant in many sectors
Average operating margin of BRICs companies vs. World Averages



Source: Datastream.

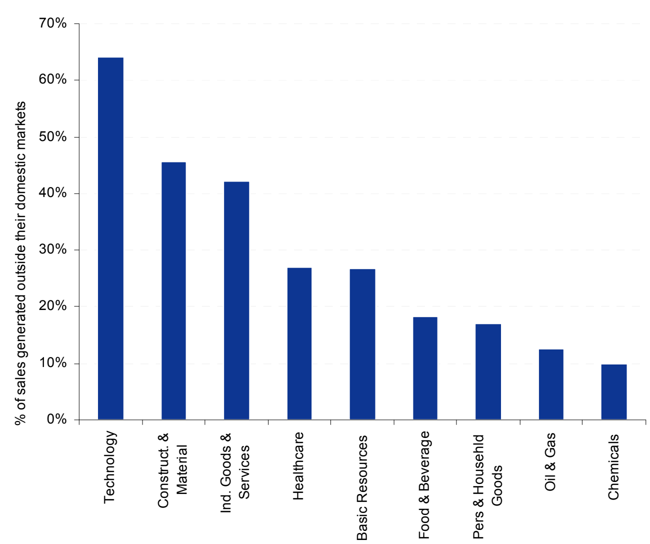
Beyond a cost advantage, BRICs companies are also becoming increasingly internationally competitive on factors other than cost. Investment in research and development in many of these countries has increased substantially in recent years, typically focused on a narrow range of industries. As a result, BRICs companies have become increasingly internationally competitive, reflected in relatively high levels of international sales in many sectors.

Exhibit 34: Domestically owned technology is developing quickly
Ratio of patents registered by residents to registrations by non-residents in China



Source: World Bank.

Exhibit 35: BRICs companies in many sectors are internationally competitive
% of sales generated outside domestic markets by BRICs companies



Source: Datastream.

EM Nifty 50: Identifying the key companies in EM (GSSTEM50)

We have developed a basket of 50 BRICs-listed companies bringing together companies well positioned to benefit from the demand growth we expect in BRICs markets. We have included companies covered by our regional analysts with market capitalizations over US$1 bn and screened that universe of around 400 large cap companies. We selected companies based on their 3-year 2009E-12E EPS CAGR, their P/E, EV/EBITDA and ROE in 2010E. We also asked our regional analysts to highlight the companies that in their view could be potential leaders in their industry. Overlaying these two lists, we highlight 50 structurally well placed large cap companies offering rapid growth in coming years.

Exhibit 36: We have included nine companies identified as structurally well placed under the GS EM NIFTY 50 basket (GSSTEM50) constituents

EM NIFTY 50 (GSSTEM50)

						Price to Earnings		Earnings Growth		Price to Book		Dividend Yield		EV / EBITDA		Return on Equity	
Company name	**Country**	**Weights (%)**	**Rating**	**Liquidity ($mn)**	**Current market cap ($bn)**	**2010E**	**2011E**	**2010E**	**2011E**	**2010E**	**2011E**	**2010E**	**2011E**	**2010E**	**2011E**	**2010E**	**2011E**
Automobiles & Parts																	
Hero Honda Motors	India	1.2	B	19	6.5	14.5	12.8	18.1	12.6	4.9	3.9	1.5	1.7	0.1	0.1	34.0	30.0
Banks																	
China Constr Bank (H)	China	2.9	B*	297	191.6	10.4	8.6	21.6	20.8	2.2	1.9	3.6	4.5	NM	NM	21.3	22.2
ICBC (H)	China	2.8	B*	253	65.2	11.5	9.7	22.9	18.5	2.4	2.1	3.5	4.3	NM	NM	20.5	21.2
Itau Unibanco Holding	Brazil	2.7	N	168	46.3	13.2	10.8	32.9	21.4	2.8	2.5	1.9	2.3	NM	NM	21.1	23.0
Sberbank	Russia	3.3	B	889	50.0	18.5	8.3	NM	NM	1.9	1.5	0.0	0.6	NM	NM	10.1	18.3
State Bank of India	India	2.2	B	115	29.5	12.6	9.8	13.6	27.9	1.9	1.7	1.4	1.5	NM	NM	15.5	17.5
Basic Resources																	
Angang Steel (H)	China	1.9	B	40	2.0	15.8	11.8	NM	34.2	1.6	1.5	1.1	2.6	8.3	6.9	10.1	12.4
China Shenhua Energy (H)	China	2.3	B	79	15.3	17.2	16.2	10.9	6.4	3.2	2.8	1.8	1.9	5.3	4.9	18.3	17.0
Companhia Siderurgica Nacional	Brazil	3.0	B	86	27.5	17.0	10.9	40.0	56.0	4.6	2.8	5.2	1.7	4.9	3.0	26.9	25.9
Jiangxi Copper (H)	China	2.0	N	65	3.2	11.6	9.2	56.8	26.7	1.8	1.5	1.0	NM	7.6	6.3	15.2	16.2
JSW Steel	India	2.5	B	48	2.8	7.6	5.6	42.1	36.1	1.4	1.0	1.1	1.8	0.1	0.1	17.8	18.4
NLMK	Russia	1.3	N	12	16.2	13.0	9.2	NM	42.5	1.5	1.4	0.0	1.8	NM	NM	11.7	14.9
Sterlite Ind India	India	2.1	B*	61	13.3	11.7	9.9	42.1	18.5	1.5	1.5	0.5	0.5	0.2	0.1	13.2	14.8
Vale	Brazil	2.7	B	552	86.9	16.0	13.9	59.0	15.0	2.5	2.2	1.8	1.8	4.4	3.7	15.5	15.8
Votorantim Celulose e Papel	Brazil	1.4	B	17	5.7	11.9	11.3	45.3	4.9	1.4	1.4	0.0	0.0	2.3	2.0	12.1	12.7
Construction & Materials																	
China National Building Mat	China	1.7	B	31	2.6	11.8	10.7	31.5	10.8	2.3	1.9	0.5	0.7	5.9	5.2	19.2	17.6
Jaiprakash Associates	India	2.1	B	97	6.3	21.1	15.6	15.8	35.8	3.4	2.9	0.4	0.4	0.8	0.7	16.0	18.6
Larsen & Toubro	India	1.8	N	91	20.0	22.5	18.0	19.8	25.2	4.6	3.9	0.8	0.8	0.2	0.1	20.5	21.5
Financial Services																	
Visanet	Brazil	2.1	B	85	13.4	13.5	11.9	15.6	13.5	NM	NM	6.0	7.4	9.8	9.1	NM	NM
Housing Dev Finance	India	1.5	N	56	16.2	25.2	20.8	17.7	21.1	4.6	4.0	1.2	1.4	0.1	0.1	18.3	19.4
Food & Beverage																	
China Mengniu Dairy	China	1.0	B*	22	4.7	20.4	16.9	19.2	20.7	3.3	2.8	0.8	1.1	10.0	8.2	16.2	16.8
Want Want China	China	0.7	B	9	7.7	19.4	15.8	30.2	23.0	6.3	5.3	2.2	2.9	NM	NM	32.3	33.7
Health Care																	
Mindray Medical Intl (ADR)	China	1.3	N	22	2.4	22.3	17.0	27.3	31.1	4.8	3.8	0.7	0.9	10.1	8.0	21.5	22.3
Industrial Goods & Services																	
China Shipping Dev (H)	China	1.8	B	19	1.8	14.0	10.8	72.2	29.1	1.3	1.2	0.8	1.4	13.5	11.0	9.6	11.2
Insurance																	
China Life Insurance (H)	China	2.4	N	231	34.8	25.2	21.5	15.0	17.4	3.7	3.2	1.0	1.2	NM	NM	14.6	14.7
Oil & Gas																	
Cairn India	India	1.8	B	28	10.7	11.8	7.9	NM	49.3	1.4	1.3	0.0	0.7	0.6	0.4	11.7	16.0
China High Speed Transmission Equi	China	1.1	B	15	2.6	15.6	12.5	37.9	24.4	3.4	2.9	1.5	1.9	13.4	10.6	21.8	23.0
CNOOC	China	3.1	B*	138	66.3	12.1	10.7	35.0	12.8	2.2	1.9	2.5	3.0	11.7	10.4	18.4	18.0
Gazprom	Russia	3.2	B	263	149.9	6.5	4.6	14.8	41.9	0.8	0.7	1.0	1.2	NM	NM	12.2	15.3
Novatek	Russia	2.1	B	23	15.8	13.7	11.5	57.0	19.1	3.6	2.8	1.4	2.1	NM	NM	26.2	24.2
Petrobras	Brazil	3.5	B	649	122.9	25.8	25.3	28.5	1.9	4.8	4.8	1.0	0.8	1.4	1.3	18.8	19.0
Reliance Ind	India	2.8	B*	220	69.8	13.4	11.1	26.5	20.9	2.2	1.9	NM	0.8	0.1	0.1	16.4	17.1
Personal & Household Goods																	
Belle Intl	China	1.1	B*	13	8.3	19.6	16.8	19.0	16.4	3.3	2.8	1.1	1.4	NM	NM	16.6	16.6
ITC (IN)	India	1.4	N	32	20.8	22.3	18.9	16.8	17.6	5.5	4.8	1.6	1.9	1.1	1.0	24.8	25.2
Real Estate																	
China Overseas Land & Inv	China	1.8	N	60	17.2	16.2	12.8	29.2	26.7	2.8	2.4	1.0	1.3	10.1	8.5	17.5	19.0
PDG Realty	Brazil	1.6	B	17	3.2	10.8	8.7	44.1	24.9	1.0	2.0	0.9	2.5	10.6	8.8	9.1	22.7
Unitech	India	2.3	B*	158	4.1	18.1	13.0	-7.6	39.2	1.7	1.6	0.1	0.2	2.4	1.9	9.6	11.9
Retail																	
China Dongxiang	China	1.1	B	14	3.4	13.5	11.3	17.8	18.8	2.7	2.4	NM	4.1	NM	NM	20.1	21.0
Localiza Rent A Car S/A	Brazil	1.2	B	8	2.2	16.9	13.5	93.2	25.4	4.2	3.3	0.7	1.4	6.7	5.6	24.9	24.7
Magnit	Russia	0.4	B	4	5.5	16.5	11.7	31.6	41.0	3.8	2.9	0.2	0.2	NM	NM	23.3	25.1
X5 Retail	Russia	1.1	B	8	6.8	20.8	15.2	100.0	36.7	3.1	2.6	0.0	0.0	5.6	4.3	14.7	16.9
Technology																	
Baidu.com (ADR)	China	3.2	B*	668	10.3	43.0	30.7	48.5	40.2	NM	9.4	0.0	0.0	1.2	0.8	31.5	30.8
Lenovo	China	2.0	B*	23	5.4	25.0	16.6	NM	50.7	3.5	3.1	NM	0.9	NM	NM	13.9	18.7
Tencent	China	2.0	B	58	31.3	31.0	25.3	38.8	22.6	NM	8.5	0.4	0.5	3.6	2.8	39.4	33.5
Telecommunications																	
China Mobile	China	2.7	B	303	191.0	11.3	10.7	1.4	5.3	2.3	2.0	3.8	4.0	1.5	1.4	20.0	18.7
Mobile TeleSystems (ADS)	Russia	2.8	B	96	19.0	9.4	8.2	23.2	14.9	3.4	3.1	5.1	7.2	1.8	1.6	36.3	38.0
Vimpel Communications (ADS)	Russia	2.9	B	96	19.2	10.0	8.6	48.8	16.8	2.8	2.4	2.9	4.8	4.0	3.7	27.7	27.7
Vivo	Brazil	1.6	B	13	6.9	14.4	10.0	52.1	43.0	1.8	1.6	2.9	3.7	1.4	1.3	12.6	15.7
Utilities																	
China Resources Power	China	1.1	B*	22	9.8	12.9	11.1	19.0	16.4	1.8	1.7	2.0	2.4	6.7	5.6	14.3	14.9
CPFL Energia S.A.	Brazil	1.4	B	11	8.7	10.2	8.8	21.7	16.9	2.9	2.9	7.6	9.2	2.9	2.5	28.7	32.8
Median				**56.7**	**12.0**	**14.4**	**11.4**	**28.5**	**21.4**	**2.8**	**2.4**	**1.1**	**1.5**	**3.8**	**2.9**	**18.3**	**18.7**

Source: Factset, I/B/E/S, Goldman Sachs Global ECS Research.

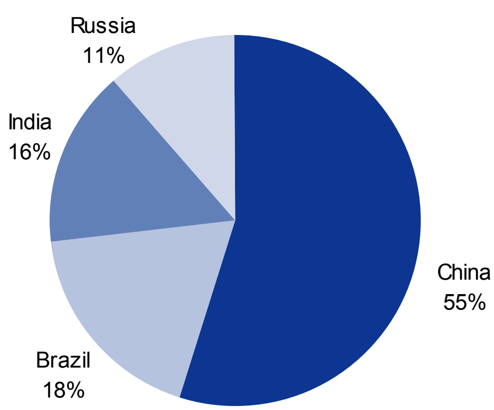
SUSTAIN framework within that list. The GS SUSTAIN framework identifies the companies in each global industry best positioned to sustain competitive advantage and superior returns on capital in each global industry over the long term (3-5 years). That framework integrates the analysis of objective, quantifiable measures of the key drivers of corporate performance: 1) returns on capital, 2) industry positioning and 3) management quality with respect to environmental, social and governance issues.

Our basket includes companies from all four BRIC countries (Brazil, Russia, India and China). We have built the basket to reflect the size of each country and market in the BRIC universe. Therefore, there is a bias towards Chinese companies (21 stocks), whereas the other countries are fairly equally represented in the basket (Exhibit 38).

The companies are weighted according to their free float market capitalization and their daily liquidity. To avoid being exposed to one particular company, the maximum weight for any single stock is 3.5%. At the other end of the spectrum, the lowest weight is 0.7%. We deliberately kept weights in a tight range to be as close as possible to an equal weight, but moved away from that last option to improve the liquidity of our basket.

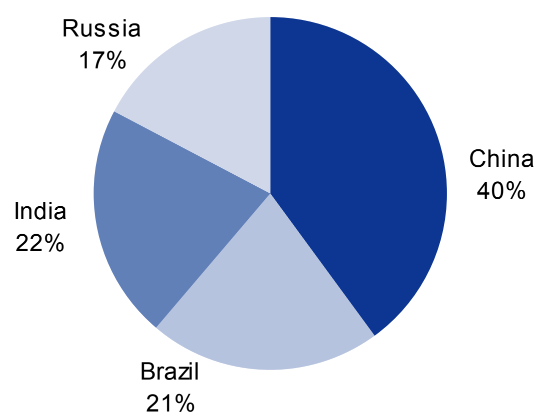
Nine of those companies are highlighted on the GS SUSTAIN focus list, which brings together leaders identified across global industries through objective, quantifiable analysis of the key drivers of corporate performance. Those companies are: ICBC, Itau Unibanco, Novolipetsk, Vale, Want Want China, Mindray Medical, CNOOC, Petrobras, China Mobile.

Exhibit 37: Market capitalization of the BRIC



Source: Datastream, Goldman Sachs Global ECS Research.

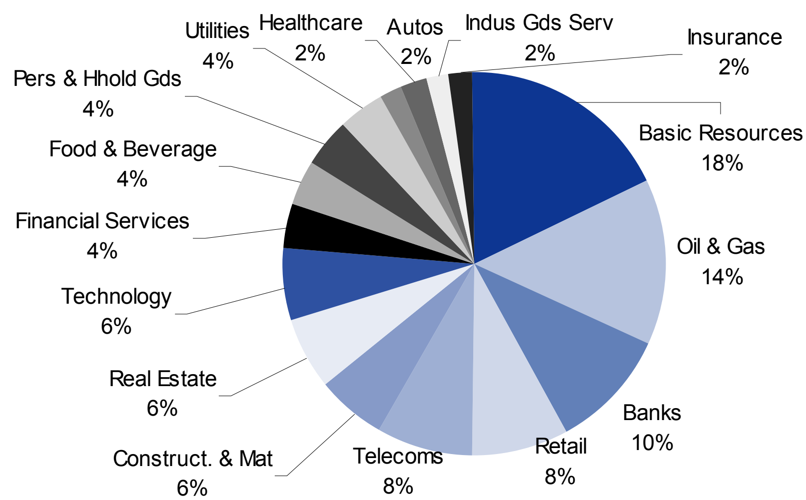
Exhibit 38: Geographical origin of our EM Nifty 50 basket (GSSTEM50)



Source: Goldman Sachs Global ECS Research.

Our EM Nifty 50 basket (GSSTEM50) comprises a broad spread of sectors (14 out of 19). The sector bias in our basket reflects the two themes we highlighted previously, i.e. the infrastructure build and the emerging middle class. Whereas basic resources and oil & gas are the two biggest sectors, banks, retail, real estate, technology and telecommunications also have significant weights (Exhibit 39).

Exhibit 39: Our EM Nifty 50 basket comprises a wide range of sectors

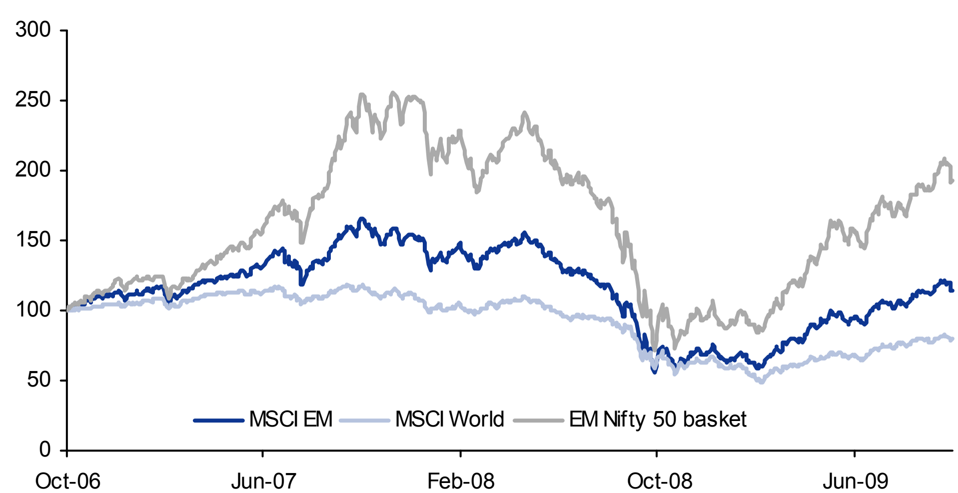


Source: Goldman Sachs Global ECS Research.

Performance

The EM Nifty 50 basket has significantly outperformed the MSCI Emerging Markets. It fell a lot in the bear market but it has recovered sharply since then (+170%). Although this performance seems extreme, the basket is still off the highs it reached in 2007, displaying a very similar pattern to what we see for the MSCI EM.

Exhibit 40: Our EM Nifty 50 basket has outperformed the MSCI EM
Backtest over the last three years



Source: Goldman Sachs Global ECS Research.

Valuation

Despite this strong performance, the basket remains attractive on almost every metric we look at. Using consensus data, the EM Nifty 50 trades at a similar 2011E earnings multiple as MSCI EM but offers stronger growth. Although the P/B is higher than for MSCI EM (2.0 vs. 1.6 using 2011E data), this is matched by a meaningfully better ROE (20% vs. 16% using 2011E data). The basket also has high EBIT margin, above 20%, which is twice the margin analysts expect for the MSCI EM in 2011.

Exhibit 41: Our EM Nifty 50 basket shows attractive valuation and growth data
Consensus data

Metric	Period	BRIC DM 50 (GSSTDM50)	BRIC EM 50 (GSSTEM50)	MSCI EM	MSCI World
P/E (x)	2009E	17.7	19.1	16.4	17.0
	2010E	14.2	13.7	12.5	13.0
	2011E	11.8	10.7	10.5	10.8
EV/EBITDA (x)	2009E	10.2	10.9	12.4	8.2
	2010E	8.7	8.2	9.7	7.1
	2011E	7.7	6.9	8.2	6.1
P/B (x)	2009E	2.2	2.6	1.9	1.6
	2010E	2.1	2.3	1.8	1.5
	2011E	1.8	2.0	1.6	1.4
ROE (%)	2009E	12.9	0.5	NM	9.9
	2010E	15.0	17.9	15.0	12.1
	2011E	16.3	20.1	15.9	13.5
DY (%)	2009E	2.1	1.8	2.2	2.6
	2010E	2.3	2.2	2.6	2.8
	2011E	2.6	2.7	3.0	3.1
EPS growth (%)	2009E	-15.5	-13.4	-6.0	-12.6
	2010E	24.2	39.8	31.1	30.6
	2011E	20.7	27.9	19.4	20.4
EBIT margin (%)	2009E	14.8	15.6	9.5	10.1
	2010E	14.1	19.1	10.5	11.3
	2011E	15.3	21.4	10.8	12.2
12-mth EPS rev. (%)	1 week	11.3	1.6	4.9	8.1
	4 weeks	23.5	7.0	10.0	16.5

Source: Factset, I/B/E/S, Goldman Sachs Global ECS Research.

Exhibit 42: Annualized volatility and Beta for our baskets and MSCI indices

	Beta	Volatility
EM Nifty 50	1.45	38.39
DM Nifty 50	1.26	29.32
MSCI EM	1.25	30.08
MSCI World	1	24.00

Source: Goldman Sachs Research estimates, Goldman Sachs Global ECS Research.

Investing in EMs: a developed market viewpoint

While the prospects for investments directly in the BRICs and N-11 may well provide excellent opportunities over the long run, there are also increasing opportunities to gain access to this theme within the developed markets themselves.

Indeed, the corporate sectors in many economies are generating an increasing proportion of their revenue outside their domestic markets and are therefore only partly limited by weaker domestic demand. As Exhibit 12 shows, the proportion of European exports, for example, going to BRICs economies has risen sharply.

This trend is also reflected in the quoted corporate sector. Again, taking Europe as an example, using our analysts' estimates of geographical exposure (for close to 950 companies) and the sales for each company, we aggregate a total exposure breakdown for our European Research coverage excluding oil companies. We then weight the GS real GDP growth forecast for each region by the exposure of the European market in this region, hence we derive the relevant growth rate for European companies. We apply the world real GDP growth rate to sales not categorised to any country. Column 4 then, shows the weighted contribution to European company sales from each region (based on sales exposure) for 2009, while the final column shows the weighted contribution for 2010.

In our view, the relevant growth rate when thinking of European equities (and this is true for the US and Japan), is not the -3.8% for 2009 and the +1.2% for 2010 we forecast for domestic GDP, but the -2.0% and +2.9% that we forecast based on the exposure that European companies have to revenue growth in each region. Moreover, as emerging markets are growing faster than developed Europe, the future weight of this area is increasing thus also increasing the composite growth rate relevant for European equities.

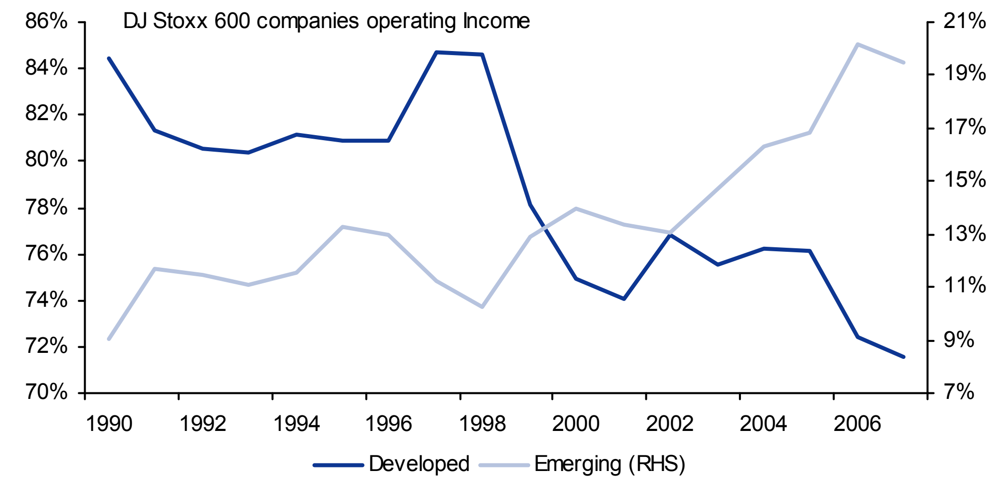
Exhibit 43: European market exposure weighted real GDP growth
GS universe; 'Other' sales are assumed to be growing at world GDP

	Exposure	2009 GDP Forecasts	2010 GDP Forecasts	2009 growth contribution	2010 growth contribution
UK	13.4	-4.1	1.9	-0.6	0.3
Europe ex-UK	49.5	-3.8	1.2	-1.9	0.6
US	14.3	-2.6	2.0	-0.4	0.3
Emerging markets	16.6	5.1	8.9	0.8	1.5
Others	7.0	-0.9	4.1	-0.1	0.3
Total				**-2.0**	**2.9**

Source: Goldman Sachs Research estimates, Goldman Sachs Global ECS Research.

It is difficult to identify the exposure of each company to a precise geographical end market. The end market for a sector like oil & gas is not particularly relevant as energy companies sell a global product at a global price. However, interpreting reported data by companies, we estimate that operating income exposure of European companies to emerging markets has doubled since 1998 (Exhibit 44).

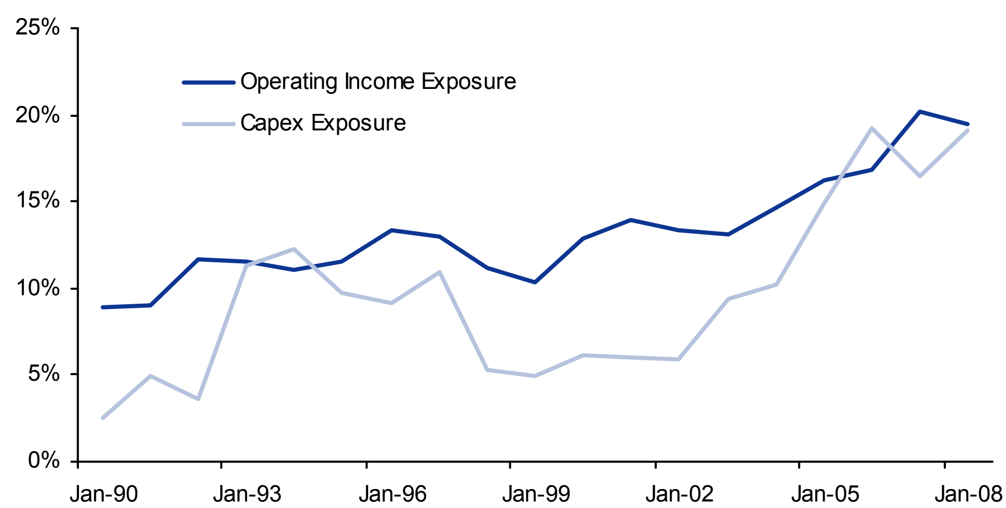
Exhibit 44: Emerging markets exposure has increased meaningfully over the last decade
European companies operating income exposure



Source: Goldman Sachs Global ECS Research, Worldscope.

This increase in operating income is also a reflection of higher investment from European companies in emerging markets. Faced with limited growth opportunities in mature markets, many European and other mature economy companies have tried to increase their presence in fast growing markets, either through M&A or through aggressive organic growth. This is reflected in the data we have collected from Worldscope. In Exhibit 45, we show the percentage of capex invested and operating income generated in emerging markets by European companies. Although companies reduced capex to emerging countries between 1998 and 2002, probably a reflection of higher technology spending in the developed world and fears of an EM crisis after Asia and Russia tailspins, they have since rapidly increased their investment into emerging economies. We expect this trend to continue.

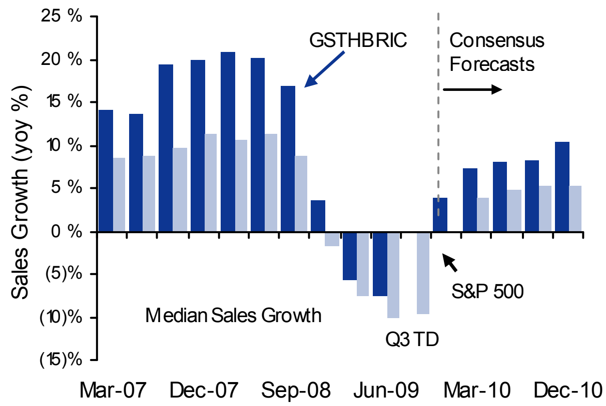
Exhibit 45: Operating income and capex exposures of European companies have grown together over the last ten years



Source: Worldscope, Goldman Sachs Global ECS Research.

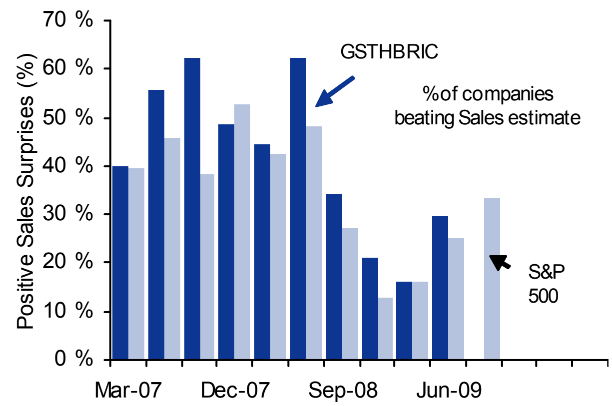
In the US as well, we found that companies exposed to the BRICs have better top-line growth. These companies have posted better sales growth than the S&P500 over each of the past 10 quarters and have posted positive revenue surprises for nine of the past 10 quarters. The superior revenue performance is consistent with faster GDP growth in the BRICs economies relative to the US (Exhibits 46 and 47).

Exhibit 46: GSTHBRIC has higher sales growth



Source: Compustat, I/B/E/S, Goldman Sachs Global ECS Research.

Exhibit 47: GSSTHBRIC has better sales surprise



Source: Compustat, I/B/E/S, Goldman Sachs Global ECS Research.

Creating a global DM BRIC Basket (GSSTDM50)

Over the past year or so, each of our regional portfolio strategy teams have been recommending baskets of companies that have significant exposure to the BRICs and other emerging economies.

- **In Europe, we recommend investing in our BRIC basket (GSSTBRIC).** Using our analysts' estimates, we screen for companies with the highest sales and operating income exposures. The median company in the basket generates 50% of its operating income from emerging markets. For more details, please see *Strategy Matters: Emerging markets exposure: the passport to growth*, September 25, 2009.
- **In the US, we recommend buying our US BRIC basket (GSTHBRIC)**, either as an absolute long or as a sector-neutral pair trade versus S&P 500. The basket identifies 50 stocks in the Russell 1000 index across ten sectors with the highest sales exposure to the BRICs countries and regions. The median stock in the basket derives 23% of its sales from the BRICs regions vs. 0% for median S&P 500 stock. For more details, please see *Strategy Baskets: Focus on degree of operating leverage and BRICs revenue exposure*, August 19, 2009.
- **In Japan, we highlight 28 Japanese companies (GSSZCIND)** which our analysts believe are well positioned to benefit from secular domestic demand growth in China, India and Indonesia ("Chindonesia"). Investors can invest in certain Japanese companies that offer similar, if not superior, returns at significant valuation discounts to their Asian peers. For more details, please see *Japan: Portfolio Strategy: Buying Chindonesia via Japan*, July 23, 2009.

We have now created one global basket that gathers companies in the developed world with high exposure to emerging markets. Mixing stocks from Europe, the US, Japan, Korea (now in the FTSE developed market indices) and Australia, we identify companies we believe will benefit from our structural positive views on emerging markets in general, and on BRICs in particular (Exhibit 48).

Exhibit 48: Global DM BRIC exposure basket (GSSTDM50) constituents

GLOBAL BRIC EXPOSURE BASKET (GSSTDM50)						P/E (x)		Earnings growth (%)		P/B (x)		Dividend Yield (%)		EV / EBITDA (x)		Return on Equity (%)	
Company name	Country	Weights (%)	Exposure to EM	6M ADVT (US$ mn)	Current market cap ($Bn)	2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E
Automobiles & Parts																	
Suzuki Motor	Japan	1.4%	46%	47.7	13.0	26.6	19.5	49.5	36.2	1.4	1.3	0.7	0.7	7.0	6.3	5.2	6.8
Hyundai Motor Co.	Korea	2.3%	30%	124.4	21.2	11.4	10.3	6.2	10.1	1.4	1.2	0.9	0.9	19.5	18.8	12.1	11.9
Hankook Tire	Korea	0.5%	25%	17.4	3.0	10.4	9.5	-0.3	9.8	1.6	1.4	0.8	1.1	11.8	11.3	15.0	14.3
Banks																	
BBVA	Europe	3.7%	NM	798.7	71.0	9.5	8.1	-3.6	16.5	1.4	1.3	4.0	5.6	-	-	14.9	15.8
HSBC	Europe	3.5%	NM	402.0	196.3	18.5	11.8	27.9	56.7	1.6	1.5	3.4	3.9	-	-	8.8	12.9
Standard Chartered	Europe	2.9%	NM	118.2	51.4	13.8	11.4	1.7	20.8	1.9	1.7	2.8	3.2	-	-	13.8	15.2
Basic Resources																	
Newmont Mining Corp. (Hldg. Co.)	US	2.9%	48%	305.5	20.7	16.0	13.7	27.9	16.7	1.9	1.8	0.9	0.9	7.3	6.9	12.1	12.9
Vedanta Resources	Europe	1.4%	73%	61.8	10.0	11.9	7.3	82.3	64.0	2.3	1.7	1.2	1.2	4.7	3.1	19.4	22.9
BHP Billiton Plc	Europe	3.1%	23%	305.4	62.9	13.5	10.8	6.3	25.0	3.3	2.7	3.1	3.2	7.4	6.2	24.2	25.4
Xstrata plc	Europe	2.7%	21%	194.6	46.0	10.8	8.7	43.0	24.2	1.3	1.1	0.6	1.0	7.5	6.0	11.6	12.4
Posco	Korea	2.1%	15%	123.5	36.3	9.0	8.5	49.5	5.6	1.2	1.1	2.0	2.0	6.7	6.3	13.9	13.0
Fortescue Metals Group Ltd.	Australia	1.0%	90%	29.3	10.5	25.3	14.8	7.9	71.0	7.8	5.2	0.0	0.0	13.6	9.0	30.8	35.5
Equinox Minerals Ltd.	Australia	0.7%	75%	6.1	2.4	10.2	5.0	NM	NM	2.0	1.3	0.0	0.0	-	-	19.3	26.2
Macarthur Coal Ltd.	Australia	0.4%	35%	10.0	2.0	16.7	11.2	-13.5	49.6	1.9	1.7	2.7	4.0	11.6	7.9	11.2	15.3
Chemicals																	
Avery Dennison Corp.	US	0.8%	23%	41.1	3.8	12.5	12.2	33.3	2.6	2.7	2.9	2.2	2.3	8.6	8.6	21.6	24.1
Construction & Materials																	
FLSmidth & Co. A/S	Europe	0.8%	47%	24.5	2.9	11.7	13.4	-23.7	-13.1	1.9	1.7	2.6	2.6	7.9	8.6	16.4	13.0
Holcim	Europe	1.8%	34%	84.2	21.8	15.1	11.8	8.1	28.1	1.1	1.0	2.4	2.9	8.6	7.9	7.4	8.8
Food & Beverages																	
Carlsberg	Europe	1.5%	54%	56.1	8.4	11.1	9.4	21.4	18.2	0.9	0.8	1.1	1.3	7.7	7.2	7.8	8.6
Anheuser-Busch InBev	Europe	2.2%	35%	114.7	77.7	15.5	13.6	15.9	14.4	2.5	2.2	1.4	1.7	10.3	9.7	16.1	16.1
Unilever (NV)	Europe	2.9%	25%	160.1	54.4	15.0	13.9	12.0	8.3	4.8	4.2	3.8	4.0	9.6	9.1	32.1	30.5
Diageo	Europe	2.0%	13%	89.0	40.8	13.0	12.0	9.0	8.9	5.4	4.5	3.9	4.1	10.4	9.8	41.8	37.5
Coca-Cola Co.	US	3.5%	14%	545.0	125.4	15.9	14.6	10.6	9.1	5.2	4.9	3.3	3.6	11.8	10.9	32.9	34.0
Healthcare																	
Mylan Laboratories	US	1.5%	24%	112.7	5.0	11.0	9.3	28.2	18.0	1.3	1.1	0.0	0.0	7.4	6.6	12.2	12.2
Pfizer, Inc.	US	3.6%	19%	792.7	141.5	7.8	7.3	11.7	6.7	1.4	1.3	4.3	7.3	3.7	3.7	18.5	18.0
Waters Corporation	US	1.1%	17%	47.1	5.5	15.3	14.0	10.5	9.5	5.2	4.6	0.0	0.0	11.2	10.4	34.3	32.9
Industrial Goods & Services																	
Expeditors Int'l	US	1.7%	58%	77.3	7.1	26.9	23.0	10.3	17.4	4.7	4.2	1.3	1.3	13.3	11.7	17.3	18.4
Boeing Company	US	2.8%	23%	308.5	35.5	11.3	11.5	NM	-1.7	30.3	14.7	3.4	3.5	6.2	6.6	NM	NM
Emerson Electric	US	2.7%	21%	185.0	29.6	18.7	15.6	-2.3	20.4	3.3	3.4	3.4	3.5	9.9	9.1	17.5	21.9
ABB Ltd	Europe	2.7%	34%	162.0	45.5	18.6	15.7	-15.3	18.2	3.2	2.9	2.3	2.4	10.9	9.3	17.1	18.4
EADS	Europe	1.0%	29%	42.9	15.5	11.8	9.7	0.9	22.0	0.8	0.8	1.6	1.6	1.0	0.9	7.1	8.3
Komatsu	Japan	2.4%	39%	120.2	19.1	29.6	18.9	25.2	56.3	2.0	1.8	1.1	1.4	11.2	9.1	6.7	9.7
Hitachi Construction Machinery	Japan	1.1%	52%	39.6	5.1	44.7	18.3	34.4	NM	1.5	1.4	0.7	1.0	11.6	9.7	3.3	7.6
Daikin Industries	Japan	1.3%	40%	46.6	10.0	32.0	17.8	97.5	79.5	1.8	1.7	1.2	1.2	12.5	9.8	5.7	9.4
Kawasaki Kisen	Japan	0.6%	24%	31.6	2.4	NM	39.3	NM	NM	0.7	0.7	0.0	1.1	16.2	8.9	NA	1.9
Oil & Gas																	
Schlumberger Ltd.	US	3.1%	14%	540.7	77.8	23.4	17.6	1.6	33.0	3.6	3.2	1.3	1.3	11.5	9.4	15.5	17.9
Personal & Household Goods																	
Philip Morris Intl	US	3.4%	30%	355.6	94.8	12.9	11.5	16.2	11.7	33.6	NM	4.8	5.6	9.0	8.5	NM	NA
Avon Products	US	2.3%	52%	112.1	13.9	15.1	13.6	28.6	11.1	9.8	5.6	2.7	2.9	9.7	8.9	65.3	41.6
Nike	US	1.8%	29%	214.3	25.0	16.5	14.8	3.7	11.5	3.0	2.7	1.8	1.9	9.8	8.8	18.0	18.3
British American Tobacco	Europe	2.6%	41%	105.8	64.1	11.8	10.9	8.0	8.1	4.3	3.9	5.5	5.9	9.6	9.0	36.2	35.8
LVMH Moet-Hennessy Louis Vuitton	Europe	2.2%	26%	103.0	51.6	17.5	15.4	8.0	13.5	2.3	2.1	2.3	2.5	10.0	9.1	13.0	13.6
Richemont	Europe	1.4%	25%	56.4	15.1	17.9	15.7	-11.4	14.1	2.0	1.8	1.5	1.7	NM	18.4	11.1	11.6
Shiseido	Japan	1.0%	25%	34.7	7.4	22.7	21.6	3.3	5.1	1.9	1.8	3.0	3.0	8.0	7.4	8.3	8.4
Unicharm	Japan	0.6%	15%	23.0	6.5	24.0	21.9	12.6	9.5	2.8	2.5	0.8	0.9	8.3	7.7	11.5	11.3
Real Estate																	
ProLogis	US	1.7%	12%	117.8	5.6	NM	NM	NM	NM	1.0	0.7	5.1	5.1	NM	NM	NA	NA
Technology																	
NVIDIA Corp.	US	2.5%	62%	209.3	6.9	20.1	16.7	NM	20.6	2.6	2.6	0.0	0.0	9.7	-	13.2	15.6
Novellus Systems	US	1.3%	59%	78.4	2.1	15.2	11.2	NM	35.7	1.7	1.5	0.0	0.0	8.2	6.4	10.9	13.6
Ericsson	Europe	2.8%	39%	157.2	31.7	13.7	11.3	36.8	20.7	1.5	1.4	2.7	3.0	6.2	5.5	11.2	12.6
Samsung Electronics	Korea	3.0%	25%	262.9	88.4	10.2	9.6	29.5	5.9	1.6	1.3	0.8	1.0	6.9	6.4	15.3	14.0
LG Electronics	Korea	1.7%	18%	126.9	13.7	7.1	6.7	15.8	5.5	1.5	1.2	0.7	0.9	11.4	10.5	20.5	18.0
Utilities																	
AES Corp.	US	1.9%	68%	89.6	9.0	10.9	10.0	13.8	9.3	NA	NA	0.0	0.0	6.5	6.2	NA	NA
Median			**29%**	**112**	**17**	**15.1**	**12.0**	**11.1**	**15.5**	**1.9**	**1.7**	**1.5**	**1.7**	**9.6**	**8.7**	**14.9**	**14.7**

* Sales for US, Europe, Korea and Australia, Operating Income for Japan

Source: Factset, I/B/E/S, Goldman Sachs Global ECS Research.

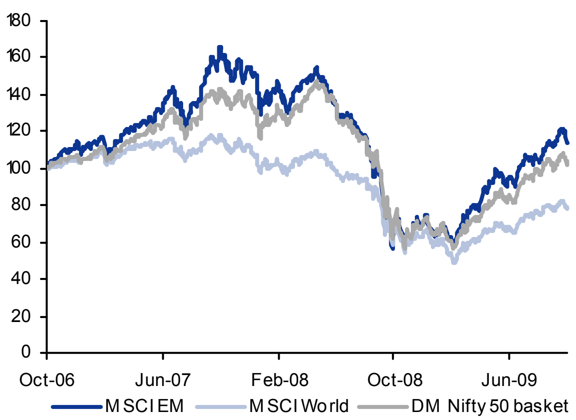
Our basket includes companies from the main developed regions. Europe provides more than one-third of the companies. As outlined previously, we believe that European companies are increasingly exposed to EM growth. However, the US, Japan, Korea and Australia also have companies with significant exposure to EMs and we include companies with significant emerging market exposure in our global BRIC basket.

This developed market basket includes 12 companies included in the GS SUSTAIN focus list of long-term industry leaders. Those companies are BBVA, HSBC, Standard Chartered, BHP Billiton, Unilever, Diageo, Coca-Cola, Emerson Electric, ABB, Schlumberger, Nike and Richemont. While the GS SUSTAIN framework integrates analysis of all key drivers of competitive advantage in each sector, exposure to growing regions is an important driver of sustained industry leadership in many sectors.

The companies are weighted according to their exposure to EMs, their free float market capitalization and their daily liquidity. However, we have also kept any single stock weight below 4% to avoid idiosyncratic risks. Although the basket is not strictly equally weighted, the standard deviation of weight is only 0.9%.

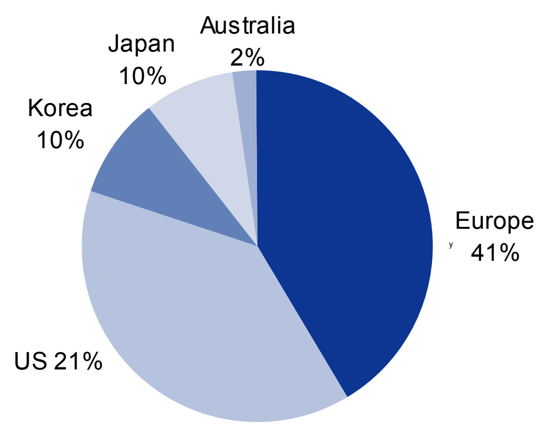
We have optimized the liquidity in order to increase the tradability of this basket. The DM Nifty 50 basket offers EM-like return with an increased liquidity. Liquidity can indeed quickly dry out in emerging markets. The majority of companies in our global BRIC basket are large caps with stable liquidity. The median company has a market cap of $18 bn and a 6-month daily average liquidity of $112 mn.

Exhibit 49: Our DM Nifty 50 basket performed in line with the MSCI EM
Backtest over the last three years



Source: Goldman Sachs Global ECS Research.

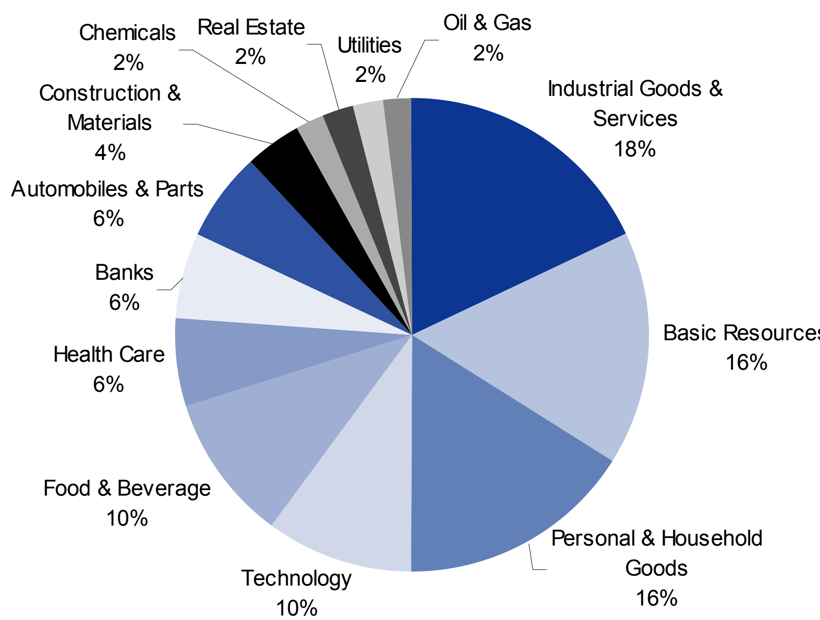
Exhibit 50: Geographical origin of our DM Nifty 50 basket



Source: Goldman Sachs Global ECS Research.

Our DM Nifty 50 basket comprises a broad selection of sectors (14 out of 19). But there is an understandable bias towards industrial, basic resources and consumer stocks. The infrastructure growth story highlighted above should be particularly beneficial for industrial and commodity related stocks. But the emerging consumer theme in BRICs should increasingly benefit branded consumer stocks.

Exhibit 51: Our DM Nifty 50 basket comprises a wide range of sectors



Source: Goldman Sachs Global ECS Research.

Performance

In terms of performance, the DM Nifty 50 BRICs basket has performed in line with the MSCI Emerging Markets and tracks this index closely. Over the last three years, investing in these companies would have returned 16% in US dollar terms. This compares very well with a broad developed index like the MSCI World, which over the same period lost c.20% (Exhibit 49). We think this outperformance reflects the diverging economic paths between emerging and advanced economies. Investing in the global BRIC basket provides investors an emerging market-like return with possibly less corporate governance and political risks.

Valuation, volatility and liquidity

Given that the performance of this basket is very close to the performance of the emerging markets themselves, there are four reasons why investors might want to buy the DM Nifty 50.

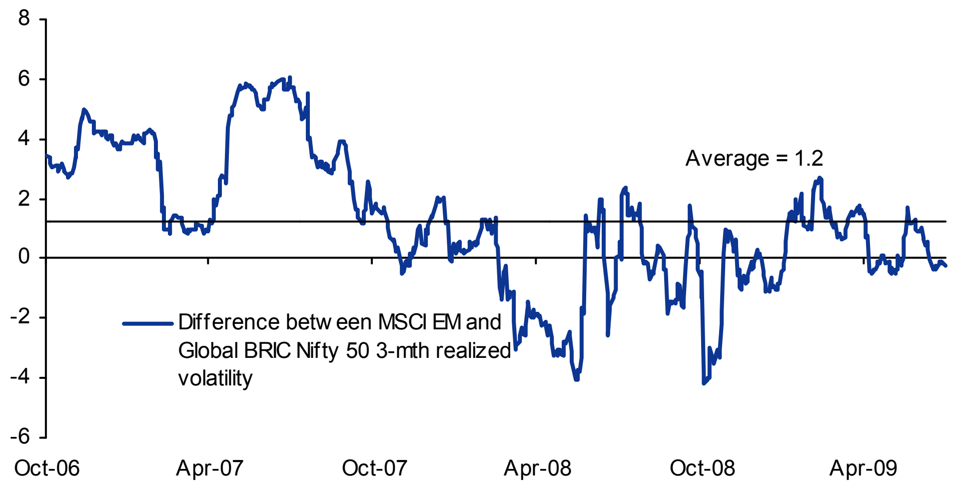
1) To hedge against the domestic benchmarks of the markets that the companies are in. Given that we think these companies offer better growth prospects, we expect them to outperform the broader equity indices.

2) Because they offer better value than their emerging market counterparts (Exhibit 41).

In terms of valuation, GSSTDM50 is cheaper on an EV/EBITDA basis than MSCI EM and has a higher EBIT margin than either MSCI World or MSCI EM for both next year and the year after. While the P/B is higher than the other main indices, the basket has a premium ROE of over 16% for 2011. Revisions have also been higher for our basket over the last month than for MSCI EM or MSCI World.

The DM Nifty 50 basket offers an EM-like return with a lower volatility. Although it has a higher volatility than the MSCI World developed, the 3-month realized volatility has been on average 1.2 vol points below the MSCI EM realized volatility over the last three years (Exhibit 52).

Exhibit 52: Volatiliy is lower for our DM Nifty 50 basket than for MSCI EM
Daily 3-mth realized volatility



Source: Datastream, Goldman Sachs Global ECS Research.

4) Finally, we believe that our DM Nifty 50 basket offers a liquid vehicle through which to get exposure to emerging markets. This differs meaningfully from some emerging markets where the fluctuation of liquidity could provide a significant hurdle for investors. The median market cap in our DM Nifty 50 basket is $18 bn and the median liquidity, measured as the last six months' average daily liquidity, is $112 mn.

Other disclosures

The Equities Division of the firm has previously introduced the basket of securities discussed in this report. The Equity Analyst may have been consulted as to the composition of the basket prior to its launch. However, the views expressed in this research and its timing were not shared with the Equities Division. Note: The ability to trade this basket will depend upon market conditions, including liquidity and borrow constraints at the time of trade.

RegAC

We, Peter Oppenheimer and Andrew Howard, 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.

Disclosures

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