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Goldman Sachs

An equity investor's guide to the Flow of Funds Accounts

Portfolio Strategy Research

US public equity ownership and flow from the Flow of Funds report

We forecast $200 billion of net equity inflow in 2013

We expect $450 billion of corporate purchases through buybacks and cash M&A. We forecast inflows from mutual funds ($125 bn), foreign investors ($75 bn), US equity-related ETFs ($75 bn), and life insurance ($50 bn). We forecast net outflows from households ($475 bn) and pensions ($100 bn).

Corporate equity purchases are a source of share demand

Net share reductions through buybacks and cash M&A occurred during 8 of the last 10 years. Net positive equity issuance in 2008 and 2009 was fuelled by follow-on offerings in the Financials sector.

Mutual fund flows have shifted to international and passive equity

Mutual fund equity allocation equals 55%, close to the 30-year average. Domestic equities now represent 40% of assets and foreign stocks represent 15%. If investors shift out of bond funds, further allocation into equities is likely to favor reversion into domestic equities.

Households category includes retail and other owners

It is difficult to identify trends within household flow data because of the sector's ambiguity. Equity flows from the household sector are the remainder of net issuance less net purchases from all other categories. Corporate repurchases usually result in household equity outflows.

Goldman Sachs forecast of 2013 US net equity flows (in $ billions)

	Net Equity Inflow / (Outflow)				
Category	**2009**	**2010**	**2011**	**2012**	**2013E**
Corporations	$ (1)	$ 247	$ 434	$ 434	**$ 450**
Mutual Funds	86	44	5	(37)	**125**
Foreign Investors	155	73	(114)	(35)	**75**
ETFs	71	88	72	133	**75**
Life Insurance	33	46	38	40	**50**
Pension Funds	(155)	(135)	(130)	(84)	**(100)**
Households	59	(95)	(62)	(204)	**(475)**
TOTAL	**$ 248**	**$ 268**	**$ 241**	**$ 247**	**$ 200**

Source: Federal Reserve Board and Goldman Sachs Global ECS Research.

Amanda Sneider, CFA
(212) 357-9860 amanda.sneider@gs.com
Goldman, Sachs & Co.

David J. Kostin
(212) 902-6781 david.kostin@gs.com
Goldman, Sachs & Co.

Stuart Kaiser, CFA
(212) 357-6308 stuart.kaiser@gs.com
Goldman, Sachs & Co.

Ben Snider
(212) 357-1744 ben.snider@gs.com
Goldman, Sachs & Co.

Peter Lewis
(212) 902-9693 peter.lewis@gs.com
Goldman, Sachs & Co.

Rima Reddy
(801) 884-4794 rima.reddy@gs.com
Goldman, Sachs & Co.

Table of Contents

An equity investor's guide to the Flow of Funds Accounts

The Federal Reserve Flow of Funds report analyzes $26 trillion of corporate equity assets at year-end 2012. At the time, the market value of domestic corporations was $19 trillion. Public domestic corporations represented $17 trillion of assets and private domestic corporations represented $3 trillion of assets.

We forecast $200 billion of potential net equity inflow in 2013. We expect $450 billion of corporate purchases through buybacks and cash M&A equal to about 3% of the equity cap. We forecast inflows from mutual funds ($125 billion), foreign investors ($75 billion), US equity-related ETFs ($75 billion), and life insurance ($50 billion). We forecast net outflows from households ($475 billion) and pensions ($100 billion).

HOUSEHOLDS (38% of corporate equity ownership): The "Household" sector described in the Flow of Funds report is a plug for all assets not classified into other sectors. As a result, "Households" includes more than just retail investors. The sector also includes but is not limited to non-profits, endowments, domestic hedge funds, private equity funds, and personal trusts. Total effective household ownership of corporate equities is closer to 80% when combined with 41% indirect ownership in the form of mutual funds, pension funds and insurance policy holdings. Corporate and noncorporate equity represent 52% of household financial assets.

MUTUAL FUNDS (20% of corporate equity ownership): Strong asset flows into credit assets have been driven by uncertainty and poor risk-adjusted equity returns. Improving equity risk-reward is needed for investors to reallocate from bonds into equities. The regional preferences of investors have become more global in recent years as investors look for diversification and stronger growth abroad. We estimate mutual funds allocate 73% of equities holdings to domestic stocks and 27% to international stocks. If investors shift out of bond funds, further allocation into equities is likely to favor reversion into domestic equities.

PENSIONS (16% of corporate equity ownership):

Private defined contribution pension plans, which include 401(k) plans, control over $4 trillion of financial assets. In the last four years, households added between $65-103 billion to these plans each year. Defined contribution plans are a source of mutual fund inflows. Mutual funds represent almost 50% of defined contribution assets.

Private defined benefit pension plans control $2 trillion of financial assets. While households add to defined contribution plans, they withdrew assets from defined benefit plans in every year since 1995. As pensions immunize holdings, plans sold equities to purchase credit instruments.

State and local pension plans control $3 trillion of financial assets, and we estimate over 90% of those assets are allocated to defined benefit plans.

FOREIGN INVESTMENT (14% of corporate equity ownership): The share of the US corporate equity market owned by international investors stands at a 68-year high. One-third of foreign ownership of US equities is held by residents of the United Kingdom, Canada, and Japan. Another one-third is held in regions typically considered tax havens, such as Luxembourg, Switzerland, and the Cayman Islands.

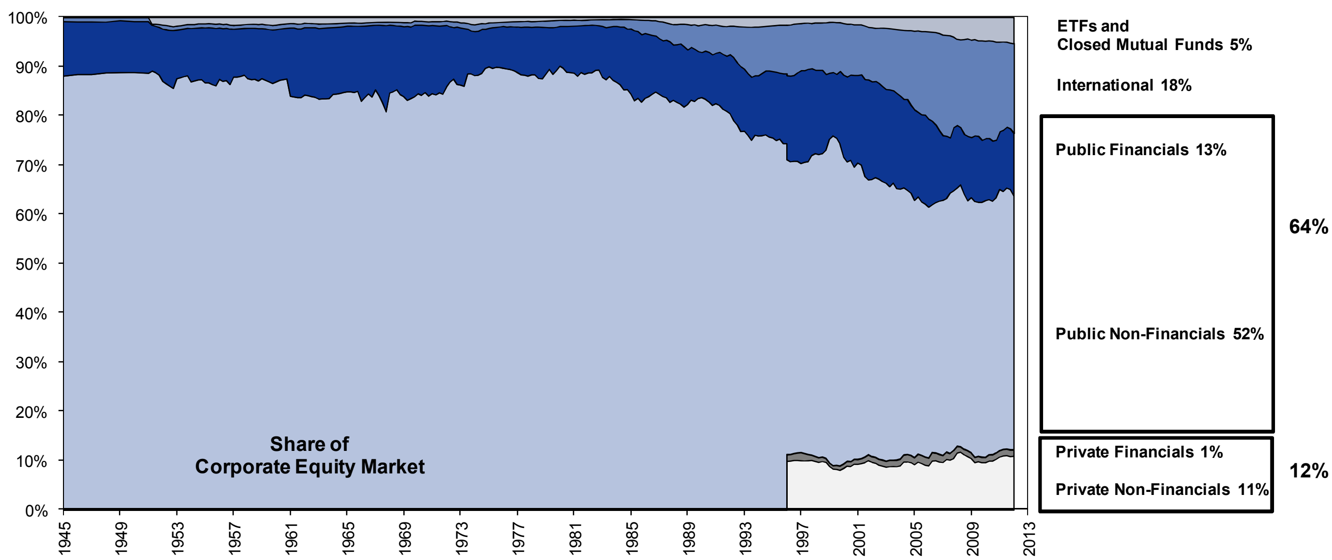
OTHER (12% of corporate equity ownership): Smaller holders include insurance companies (7%) and ETFs (4%). US-chartered depository institutions, brokers and dealers, and federal, state and local government hold the remainder of assets.

Corporate Equity Issues and Holdings

The Federal Reserve Flow of Funds report analyzes $26 trillion of corporate equity assets at year-end 2012. At the time, the market value of domestic corporations was $19 trillion. Public domestic corporations represented $17 trillion of assets (64%) and private domestic corporations represented $3 trillion of assets (12%). Equity ownership includes net holdings of foreign equity by US holders (18%), and ETFs and closed-end mutual funds (5%).

The asset value of corporate equity holdings is equal to value of equity issued by corporations. The breakdown of US corporate equity holdings includes all categories represented in the corporate equity issues table: public and private US corporate equities, ETFs, closed-end mutual funds, and international equity owned by domestic holders.

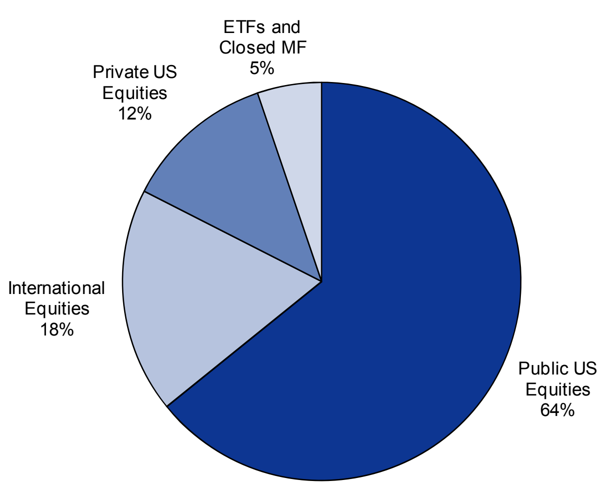
Exhibit 1: Aggregate net issuance of the corporate equity market



Note: Private holdings unavailable before 1996

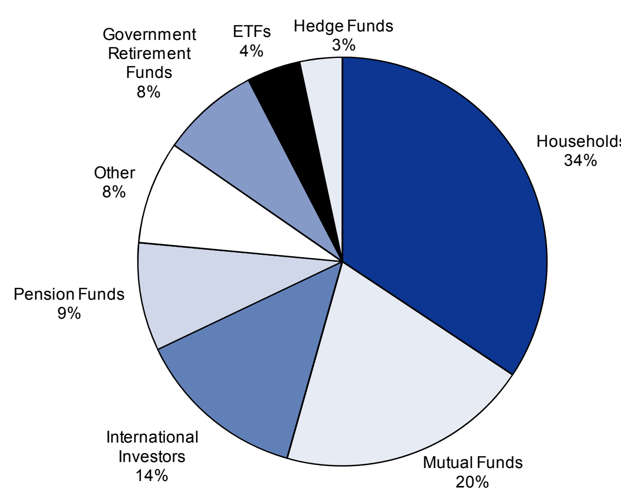
Source: Federal Reserve Board and Goldman Sachs Global ECS Research.

Exhibit 2: Corporate equity market: ISSUANCE
as of March 7, 2013; holdings as of December 31, 2012



Source: Federal Reserve Board and Goldman Sachs Global ECS Research.

Exhibit 3: Corporate equity market: OWNERSHIP
as of March 7, 2013; holdings as of December 31, 2012



Source: Lionshares, FRB and Goldman Sachs Global ECS Research.

Direct equity ownership declined over the past decade while indirect ownership rose. Households directly own 38% of the US equity market. However, the total effective household ownership is closer to 80% when combined with indirect ownership in the form of mutual funds (20%), pension funds (16%), and insurance policy holdings (7%).

Hedge funds and ETFs represent small but growing shares of the equity market. Hedge funds and ETFs cater to very different markets. Hedge funds offer active management but higher fees while ETFs offer a lower-cost passive investment. ETFs hold 4% of corporate equity assets. We estimate hedge funds represent 3% of the equity market.

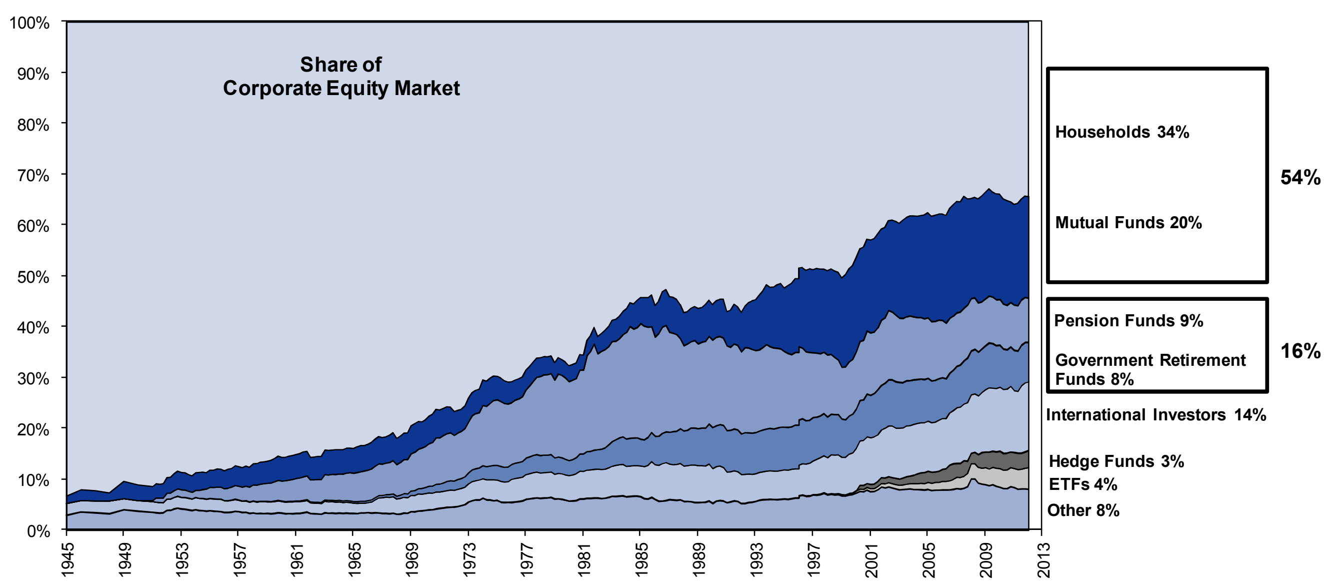
ETFs and closed-end mutual funds are both equity issuers and holders, which can lead to double counting assets. For example, if the Household sector purchases an ETF, the value of the ETF is included in Household corporate equity assets. If the ETF holds equity assets, the market value of the underlying equities are included in ETF corporate equity holdings. If the ETF holds non-equity assets, only the market value of the ETF is allocated to corporate equity assets. 83% of ETF holdings ($1.1 trillion) and 39% of closed-end fund assets ($101 billion) appear as both issues and purchases.

Historically, the Household category represents a plug for all assets not classified into other ownership categories. Consequently, it includes more than just retail investors. The sector also includes but is not limited to non-profits, endowments, domestic hedge funds, private equity funds, and personal trusts.

Broad category definitions can make it more difficult to use Flow of Funds data to analyze trends in the domestic public equity market. This limits our ability to separate flows and holdings into public and private, domestic and international, and single stock and ETF. To improve our analysis, we use data sources such as the Investment Company Institute to supplement the Flow of Funds of the domestic public equity market.

We can estimate 77% of aggregate ownership of public US single-stock equities using company-specific ownership data from Lionshares. We estimate retail investors own the unallocated 23%. Mutual funds, investment advisors, pensions, and insurance companies collectively own 47% of the public equity market. Foreign investors own 9%, ETFs own 8%, hedge funds own 5%, and individuals with large stakes, trusts and endowments collectively own 4%. We allocate the remaining 5% to other small categories.

Exhibit 4: Ownership of the corporate equity market



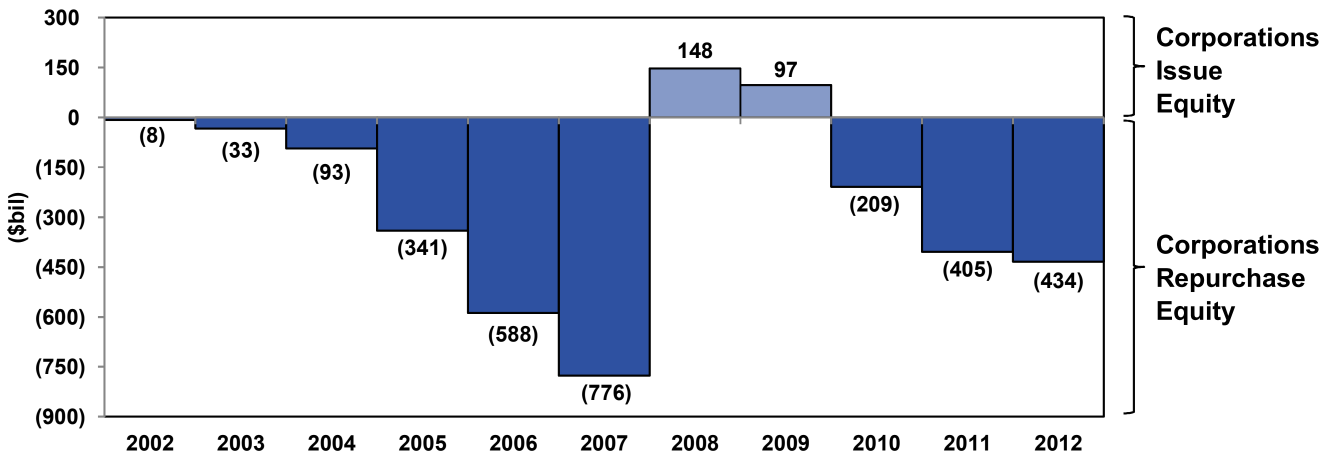
Note: Hedge fund holdings broken out from Households category

Source: Federal Reserve Board, Lionshares and Goldman Sachs Global ECS Research.

Money flow: We forecast $200 billion of potential net equity inflow

Net equity issuance has been negative for 8 of the last 10 years due to net corporate repurchases through buybacks and cash M&A. Net positive equity issuance in 2008 and 2009 was fuelled by follow-on offerings in the Financials sector.

Exhibit 5: US corporations are net repurchasers of equity
as of March 7, 2013



Note: Net issuance includes private equity holdings and excludes ETFs, Closed-end funds, and Funding corporations.

Source: Federal Reserve Board and Goldman Sachs Global ECS Research.

We forecast corporations will repurchase roughly $450 billion of net equity in 2013. ETF issuance (bond and equity) and purchases of foreign equity by US holders will total $100 billion each. As a result, net corporate equity repurchases will total $250 billion.

To focus on US equity issuance and purchases, we exclude foreign investment by US holders and ETFs on the equity issuance side. However, on the equity holdings side, net purchases by equity ETFs and purchases of US equities by international holders remain.

Exhibit 6: Our 2013 corporate equity net issuance forecast
in $ billions, as of March 7, 2013

	Issuance / (Repurchase)	Purchase / (Sell)
Corporations	$ (450)	
Households		$ (475)
Mutual Funds		125
Life Insurance		50
Retirement Funds		(100)
Foreign Investment		
International equity / US holders	100	
US equity / International holders		75
ETFs	100	75
NET ISSUANCE	$ (250)	$ (250)

Source: Goldman Sachs Global ECS Research.

The US equity market received roughly $250 billion of net equity inflow from individuals, institutional investors, foreign investors, and companies in 2012.

We forecast a net outflow of $475 billion in 2013 from the Households category, which includes retail and other owners. Our net outflow expectation follows the pattern of the past decade with direct ownership declining and indirect ownership rising (retirement accounts, for example). Inflows through indirect equity ownership reduce the market impact of direct equity outflows.

We forecast net equity inflows of $75 billion from mutual funds, retirement funds and life insurance companies. This amount includes contributions to, and asset re-allocation within, defined benefit pension funds, defined contribution pension funds, and government retirement funds. In recent years, retirement fund assets such have shifted out of direct equity allocations into indirect equity ownership through mutual funds. We expect roughly $75 billion of net inflows into US equity-related ETFs.

We forecast $75 billion of inflows from international investors in 2013, consistent with the 10-year average. International investors own 14% of the US equity market, the highest percentage in the 68-year history of the data series.

We expect corporations to purchase $450 billion of US equity through buybacks and cash M&A (net of share issuance). Spending on share buybacks and M&A will have a direct, positive impact on the US equity market. We expect cash M&A will rise by 15% in 2013 (includes purchases of foreign and private companies). We forecast no change in the volume of buybacks from 2012 levels.

Because our forecast is comparable to the Flow of Funds, our corporate equity flow forecast incorporates international and private equity. We believe the effect of private equity flows is negligible. International equity inflows bias our forecast upwards. However, we expect further allocation into equities is likely to favor reversion into domestic public equities as inflows into domestic stocks have lagged international equity in recent years.

Exhibit 7: We expect $200 billion of net inflows into the US equity market during 2013
as of March 7, 2013; Flow of Funds summary statistics through 2012

	Net Equity Inflow / (Outflow)								
Category	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013E**
Corporations	$ 345	$ 589	$ 802	$ (120)	$ (1)	$ 247	$ 434	$ 434	**$ 450**
Mutual Funds	130	131	91	(38)	86	44	5	(37)	**125**
Foreign Investors	57	96	218	106	155	73	(114)	(35)	**75**
ETFs	50	68	137	154	71	88	72	133	**75**
Life Insurance	66	71	84	82	33	46	38	40	**50**
Pension Funds	1	(97)	(133)	(74)	(155)	(135)	(130)	(84)	**(100)**
Households	(414)	(639)	(903)	(207)	59	(95)	(62)	(204)	**(475)**
TOTAL	**$ 234**	**$ 221**	**$ 296**	**$ (97)**	**$ 248**	**$ 268**	**$ 241**	**$ 247**	**$ 200**

Source: Federal Reserve Board and Goldman Sachs Global ECS Research.

Households are more than just individual investors

Households directly own 38% of the US equity market. However, the total effective household ownership is close to 80% when combined with 41% indirect ownership in the form of mutual funds, pension funds and insurance policy holdings.

The “Household” sector described in the Flow of Funds report is a plug for all assets not classified into other sectors. As a result, “Households” includes more than just retail investors. **The sector also includes but is not limited to non-profits, endowments, domestic hedge funds, private equity funds, and personal trusts.**

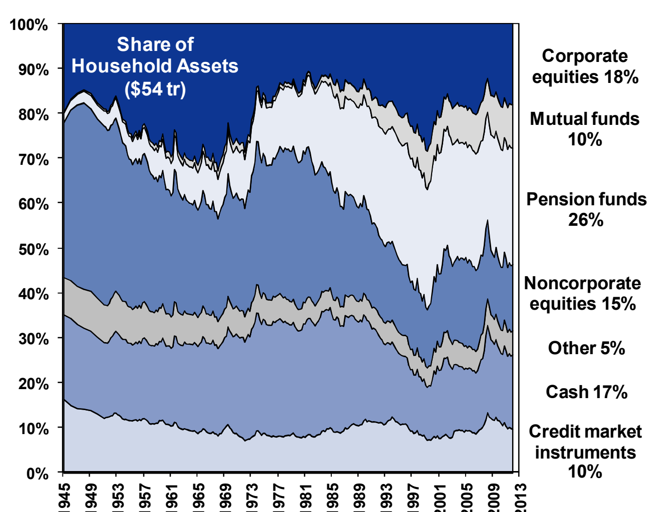
We estimate retail investors own the 23% of public US single-stock equities. Hedge funds own 5%. Individuals with large stakes, trusts and endowments collectively own 4%.

In addition, households own more equity and credit assets through indirect ownership. Equity and credit instruments account for 18% and 10% of households assets, respectively. Households own additional equity and credit assets indirectly through pension plans and mutual funds. Households hold 36% of financial assets in mutual fund and pension assets. Of this, 19% are indirect equity holdings, 12% are indirect credit holdings, 4% are miscellaneous holdings and 1% is cash.

Household ownership has shifted away from noncorporate equity such as sole proprietorships or partnerships. Corporate and noncorporate equity represent 52% of household financial assets, in-line with the 61-year average of 54%. The share of assets in noncorporate equity has steadily declined over time while the share of indirect equity assets has grown. Noncorporate equities were 40% of financial assets in 1952 and now represent just 15% of assets. Indirect equity ownership rose from under 10% to almost 20% between 1990 and 1998 and has remained around 20% for the last 14 years. Indirect equity now represents 19% of total assets. Direct corporate equity ownership as a share of assets is in-line with history (18% versus 20%).

It is difficult to identify trends within household flow data because of the sector’s ambiguity. Equity flows from the household sector are the remainder of net issuance less net purchases. Corporate repurchases usually result in household equity outflows.

Exhibit 8: Share of household financial assets
as of March 7, 2013; holdings as of December 31, 2012



Source: Federal Reserve Board and Goldman Sachs Global ECS Research

Exhibit 9: Indirect holdings in pensions and mutual funds
as of March 7, 2013; holdings as of December 31, 2012

Household Financial Assets
(indirect ownership through Mutual Funds and Pensions)

Asset	Value ($ Tr)	% of Household
Corporate Equities	**$20.1**	**37 %**
Direct	9.8	18
Indirect	10.4	19
Credit Market Instruments	**11.7**	**21**
Direct	5.2	10
Indirect	6.4	12
Cash	**9.5**	**17**
Direct	9.0	17
Indirect	0.4	1
Equity in Noncorporate Business	**8.1**	**15**
Other	**4.8**	**9**
Total Financial Assets	**$54.4**	**100 %**

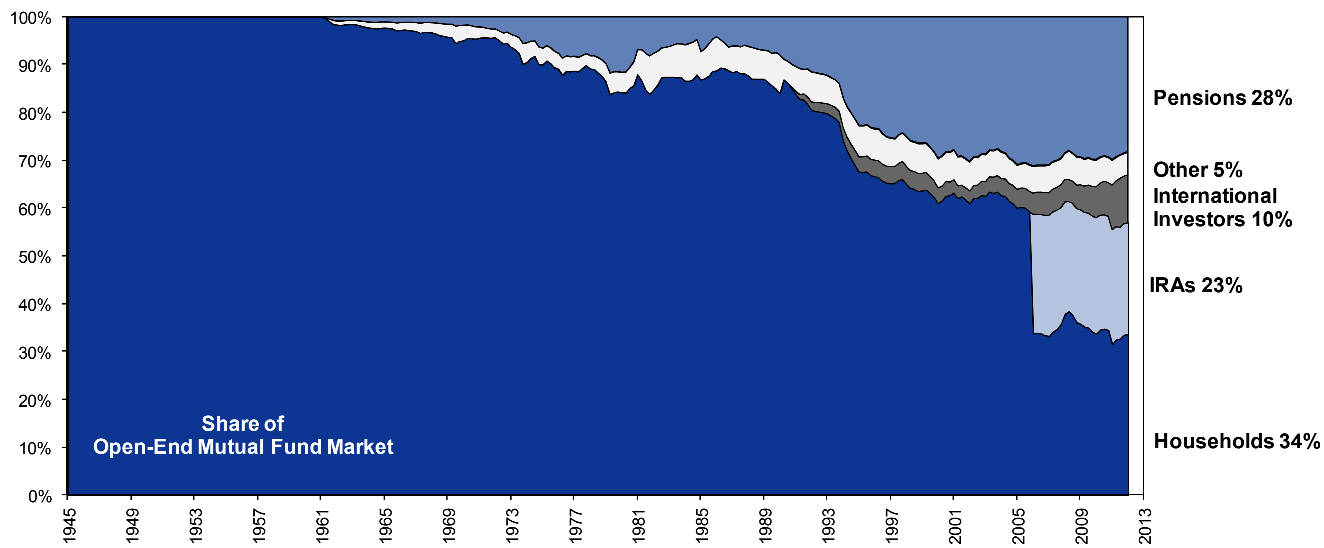
Source: Federal Reserve Board and Goldman Sachs Global ECS Research.

Household equity and credit growing through indirect ownership

Household inflows are greatest in mutual funds and pensions. Over time, the share of equity owned by households declined while mutual fund and pension ownership grew.

Households own mutual funds directly and indirectly. Households own 34% of mutual funds directly, 23% in Individual Retirement Accounts, and 28% indirectly through pensions.

Exhibit 10: The majority of mutual funds owned by households and pensions
as of March 7, 2013; holdings as of December 31, 2012

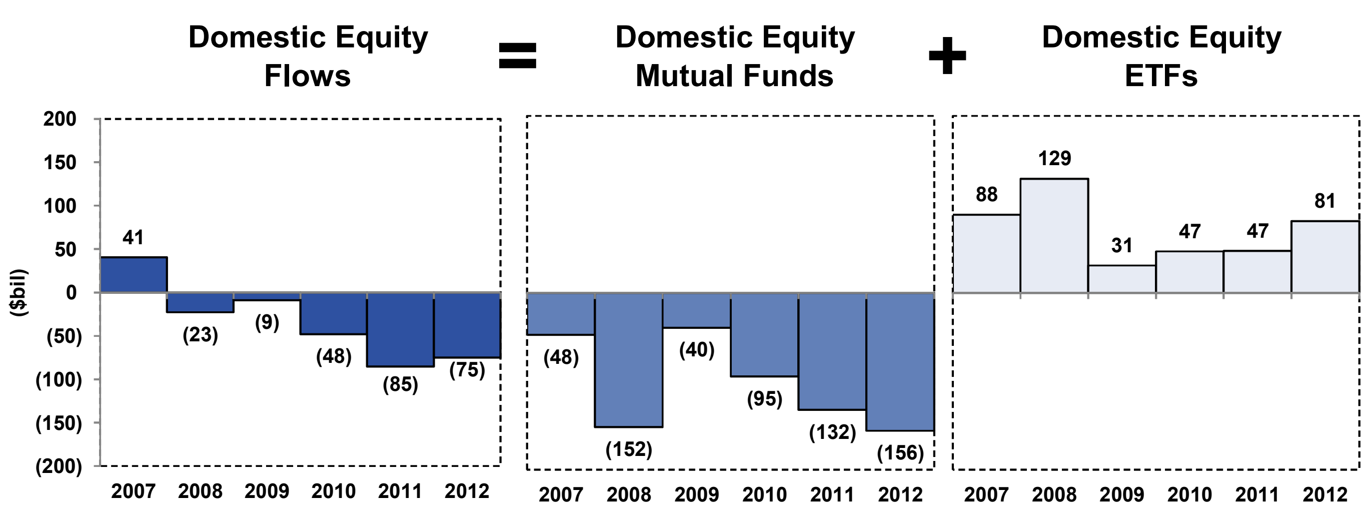


Note: IRA holdings unavailable before 2006

Source: Federal Reserve Board and Goldman Sachs Global ECS Research.

Passive equity assets, such as index mutual funds and ETFs, have grown in popularity. Reasons for this include lower fees, years of actively-managed mutual fund underperformance and the macro-driven environment of the past several years.

Exhibit 11: Domestic equity flows favor ETFs over mutual funds
as of March 7, 2013

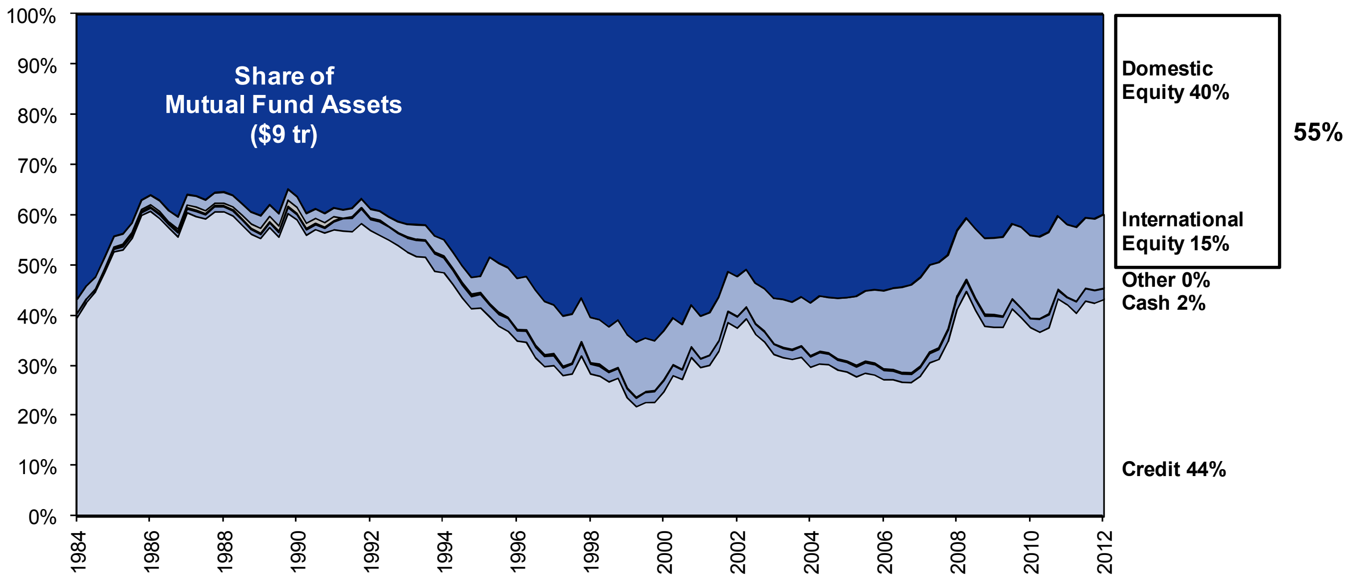


Source: ICI and Goldman Sachs Global ECS Research.

Mutual fund equity flows favor international investment

Mutual funds own $5 trillion or 20% of corporate equities in the Flow of Funds report. Equities represent 55% of mutual fund AUM. Using ICI data, we estimate mutual funds allocate 73% of equities holdings to domestic stocks and 27% to international stocks.

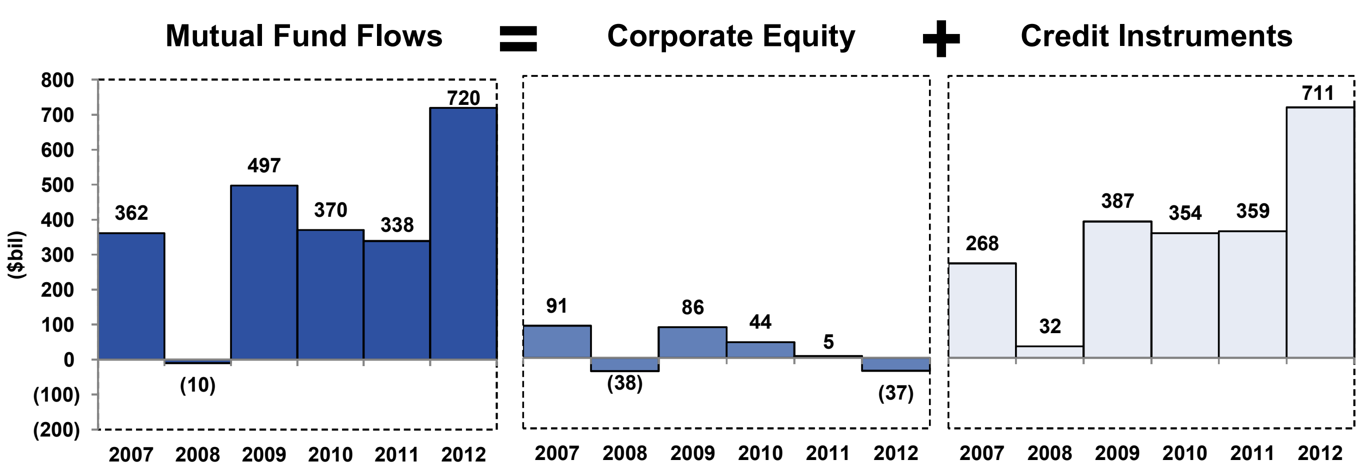
Exhibit 12: Share of open-end mutual fund financial assets
as of March 7, 2013; holdings as of December 31, 2012



Source: Federal Reserve Board, ICI, and Goldman Sachs Global ECS Research.

Mutual fund purchases have favored credit assets over equity reflecting preferences from investor flows. Strong asset flows into credit assets have been driven by uncertainty and poor risk-adjusted equity returns. Equity purchases by mutual funds were aided by a reduction in the equity fund liquidity ratio, which fell from 5.7% to 3.6% over 2009.

Exhibit 13: Mutual fund asset purchases reflect trends in retail mutual fund flows
as of March 7, 2013; Flows to cash and miscellaneous assets not shown.

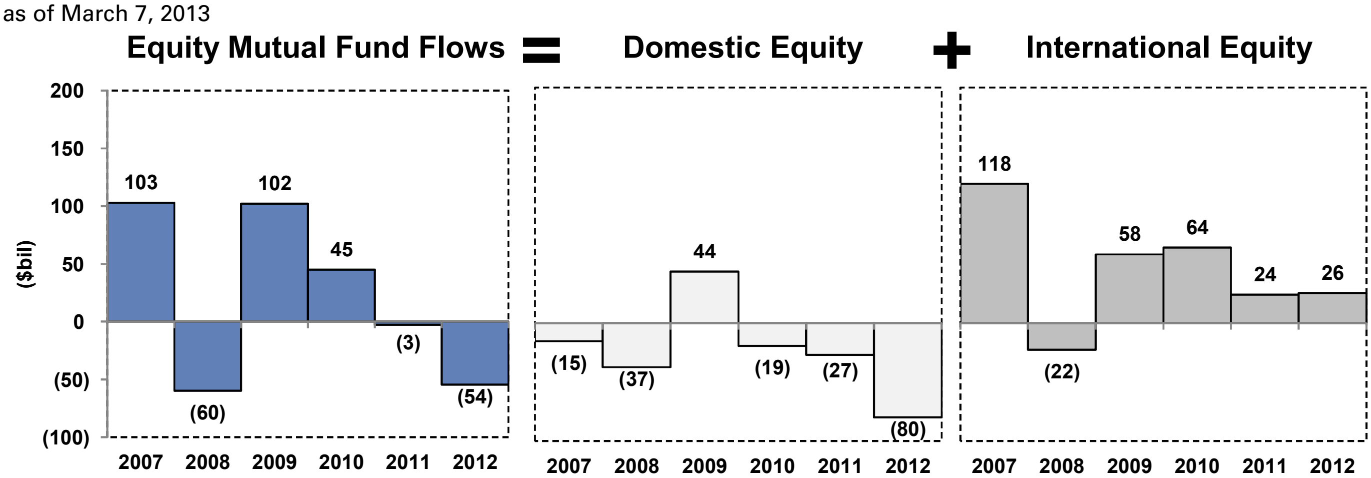


Source: Federal Reserve Board and Goldman Sachs Global ECS Research.

International equity funds have grown in popularity

The regional preferences of investors have become more global in recent years as investors look for diversification and stronger growth abroad. As equity mutual fund inflows favor global funds, equity purchases by mutual funds favor international equity. In the Flow of Funds report, mutual funds are net purchasers of equity, but there is no distinction between domestic and international equity. Data from ICI shows mutual funds have purchased international equity and sold domestic equities.

Exhibit 14: International equity mutual funds purchased stock while domestic equity funds sold
as of March 7, 2013



Source: ICI and Goldman Sachs Global ECS Research.

Despite strong equity returns, outflows from domestic equity mutual funds continued in 2012. Mutual fund flows favored credit over equity and international equity over domestic equity. Domestic equity flows were still net negative during 2012 even after including ETF inflows.

Equity allocation of 55% is close to the 30-year average. Equities averaged 57% of mutual fund holdings since 1983. Domestic equities, which averaged 49% of total assets since 1983, now represent 40% of assets. Domestic equity dropped from 54% of all assets in 2007 to 43% by 2009.

Recent data suggest domestic equity mutual fund flows turned positive in 2013 after consistent outflows (see page 17). However, international mutual fund and ETF inflows still outpace domestic equity mutual fund and ETF inflows year-to-date.

Since 2009, mutual fund investors have shifted their assets up the risk curve out of money market mutual funds and into bond funds and ETFs. Strong bond returns coupled with the high drawdown of equities during the past few years may explain why some investors have been reluctant to re-allocate assets from bonds into stocks.

Improving equity risk-reward is needed for investors to reallocate from bonds into equities. Performance, volatility, and the risk of potential future loss are all factors. We highlighted previously the significant capital loss that would result from owning US Treasuries when interest rates normalize. Goldman Sachs Economics forecasts only a modest rise in interest rates during 2013, but it anticipates further increases over the next several years. We also forecast that US stocks will almost certainly outperform bonds over the next decade given the starting point in relative valuation between the two asset classes.

Demography represents a risk to future equity allocations. Retiring baby-boomers could spark a massive disinvestment in equities. However, greater longevity means the next generation of retirees may choose to liquidate equity holdings at a slow pace to lower the risk that they outlast their savings. In ten years, roughly 17% of the US population will be more than 65 years old (up from 13% today).

Pension fund allocations and flows vary by type

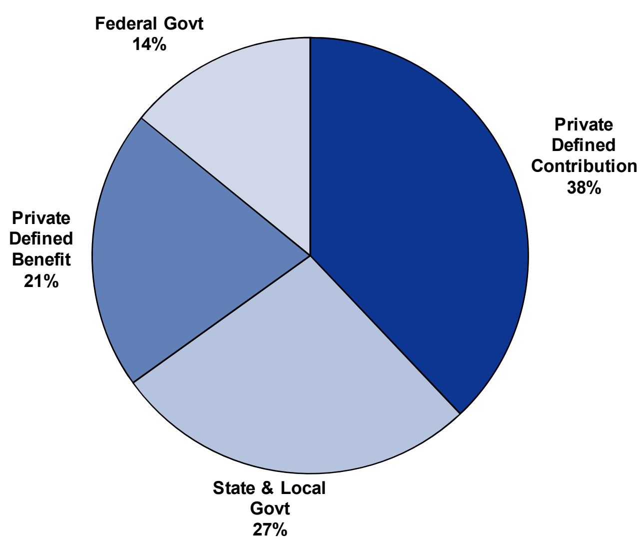
Retirement funds hold $11 trillion of financial assets. Assets fall into four categories: private defined contribution pensions (38%, $4 trillion), private defined benefit pensions (21%, $2 trillion), state and local government employee retirement funds (27%, $3 trillion) and federal government retirement funds (14%, $2 trillion).

Asset allocations and flow trends differ between the four fund types as a result of different demographics and mandates. We do not discuss federal government retirement funds as only 10% of total financial assets for these funds are allocated to corporate equity.

Pension data in the Flow of Funds report has several limitations. Corporate equities in the Flow of Funds report does not differentiate between public and private equity and international and domestic equity. This can still be used for broader allocation and flow trends. We use data from other sources for more detail on asset allocation within the corporate equity category.

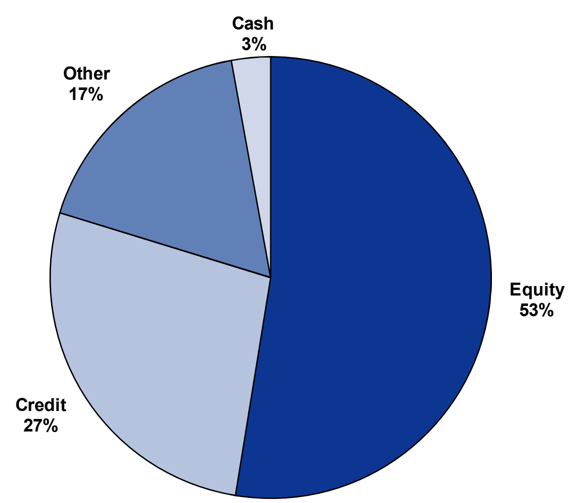
The Flow of Funds report estimates pension assets in mutual funds are distributed like the mutual fund category break-down (55% equity and 45% non-equity). Private defined contribution funds are the only exception. Almost 50% of private defined contribution fund assets are held in mutual funds. In these pensions, 66% of mutual fund assets are allocated to equity and 34% are allocated to non-equity.

Exhibit 15: Pension plan financial assets: BY PLAN TYPE
as of March 7, 2013; holdings as of December 31, 2012



Source: Federal Reserve Board and Goldman Sachs Global ECS Research.

Exhibit 16: Pension plan financial assets: BY ASSET
as of March 7, 2013; holdings as of December 31, 2012



Note: Mutual funds represent 23% of total financial assets and are distributed using indirect allocations.

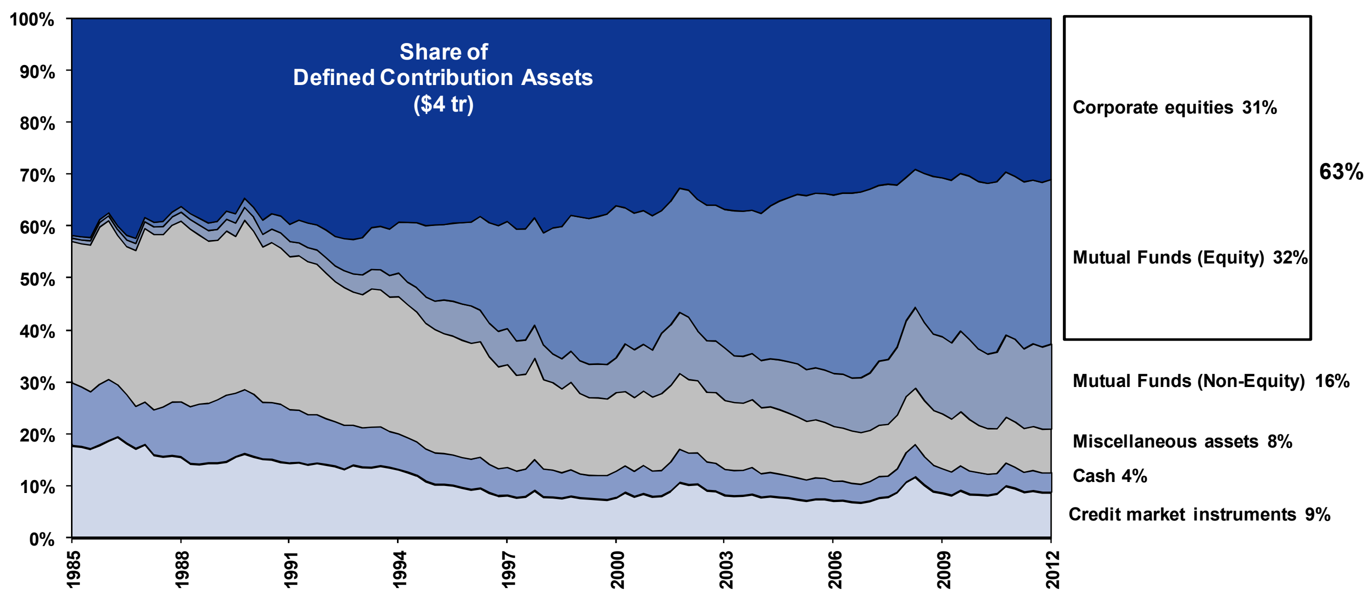
Source: Lionshares, FRB and Goldman Sachs Global ECS Research.

Private Defined Contribution Pension Plans ($4.3 Trillion)

Defined contribution plans are a source of mutual fund inflows. Mutual funds represent almost 50% of defined contribution assets. When mutual fund ownership is divided between credit and equity, the Flow of Funds report estimates equities account for 63% of total assets in private defined contribution funds. Credit instruments account for 25% of assets.

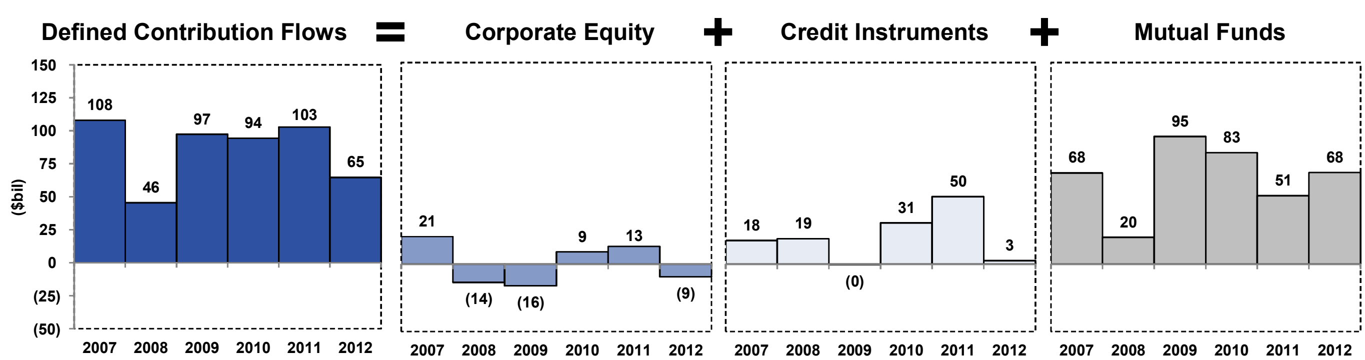
Private defined contribution pension plans, which include 401(k) plans, control over $4 trillion of financial assets. From 2004 to 2007, households added over $100 billion to these plans each year. Net inflows fell by over 50% to $46 billion in 2008. Contributions have since recovered, ranging between $94-103 billion each year from 2009 to 2011. Net inflows were not as strong during 2012 as contributions totaled $65 billion.

Exhibit 17: 48% of Defined Contribution assets in mutual funds and 66% of mutual fund assets in equities
as of March 7, 2013; holdings as of December 31, 2012



Source: Federal Reserve Board and Goldman Sachs Global ECS Research.

Exhibit 18: Defined contribution inflows purchase mutual fund shares
as of March 7, 2013; Flows to cash and miscellaneous assets not shown.



Source: Federal Reserve Board and Goldman Sachs Global ECS Research.

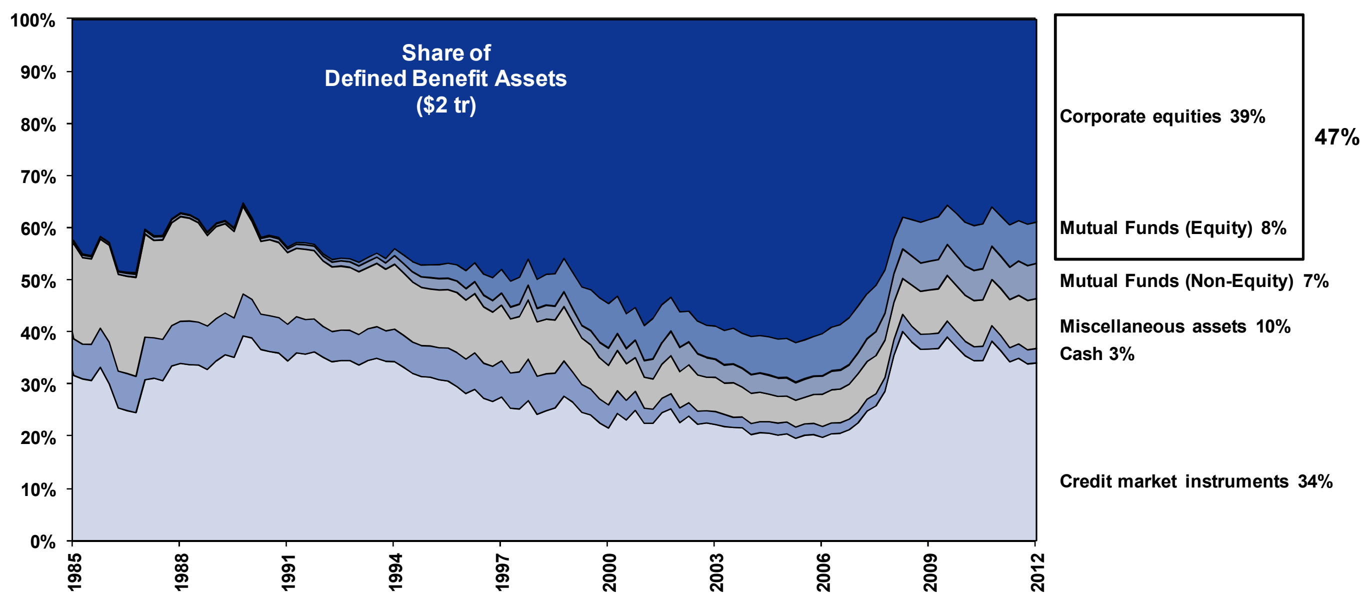
Private Defined Benefit Pension Plans ($2.3 Trillion)

While households add to defined contribution plans, they withdrew assets from defined benefit plans in every year since 1995. Plans sold equities to finance net asset withdrawals in all but two years. In recent years, as pensions immunize holdings, plans sold equities to purchase credit instruments. Credit now represents 34% of plan portfolios, up from 21% in 2007 following inflows into credit and asset outperformance.

We estimate 56% of public equity is allocated to domestic stocks with the remaining 44% in international stocks. This is in line with our estimated distribution of public equity in state and local government pension funds.

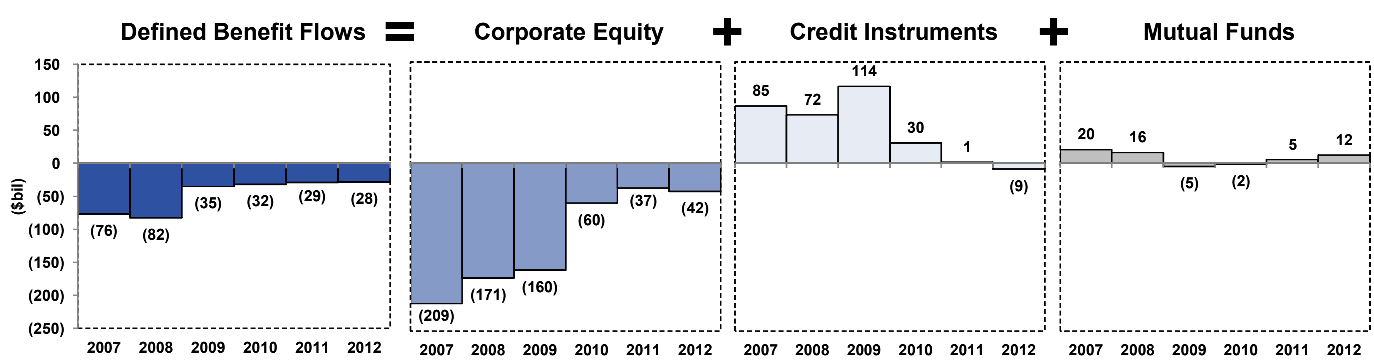
Examples of large corporate defined benefit plans include: General Motors (GM), Boeing (BA), International Business Machines (IBM), AT&T (T), and General Electric (GE).

Exhibit 19: Private defined benefit pensions hold 47% of financial assets in equities
as of March 7, 2013; holdings as of December 31, 2012



Source: Federal Reserve Board and Goldman Sachs Global ECS Research.

Exhibit 20: Defined benefit pensions are selling equity to fund redemptions and credit purchases
as of March 7, 2013; Flows to cash and miscellaneous assets not shown.



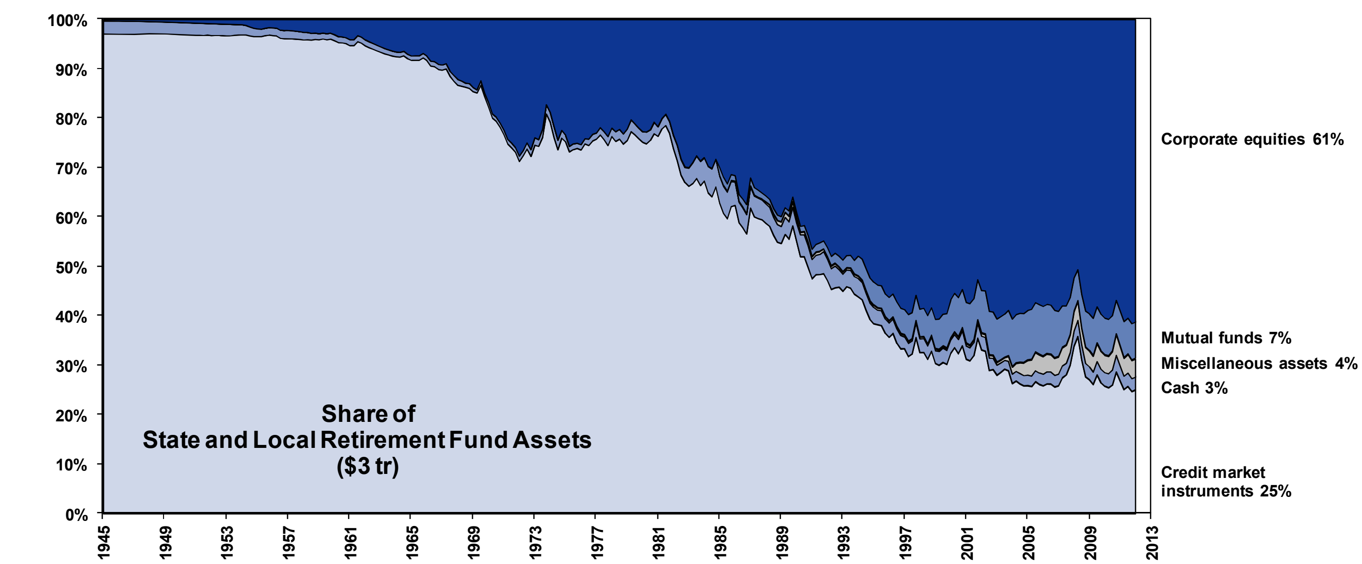
Source: Federal Reserve Board and Goldman Sachs Global ECS Research.

State and Local Government Employee Retirement Funds ($3.0 Trillion)

State and local pension plans control $3 trillion of financial assets, and we estimate over 90% of those assets are allocated to defined benefit plans. These assets are also highly concentrated in a few funds. We estimate the top ten public pension funds represent 40% of total assets.

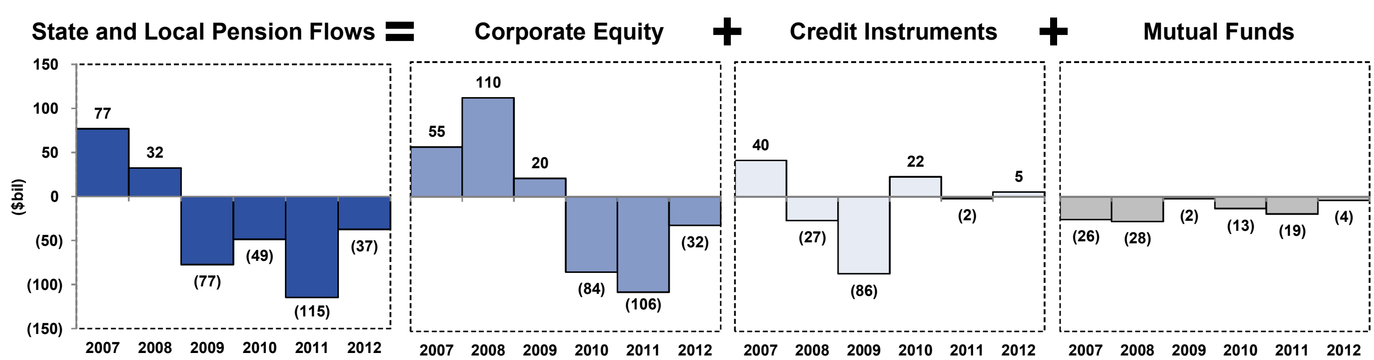
We estimate domestic public corporate equities represent 28% of total assets and 22% of total assets are held in international public equity, using data from Pensions and Investments. Alternatives represent 22% of holdings and fixed income holdings are 25% of assets. Cash assets represent 2% of the total portfolio. These allocations are largely in-line with the allocations within the Flow of Funds report.

Exhibit 21: State and local government pensions hold 65% of assets in equities; we estimate 20% in alternatives
as of March 7, 2013; holdings as of December 31, 2012



Source: Federal Reserve Board and Goldman Sachs Global ECS Research.

Exhibit 22: State and local government pensions are selling equity to fund redemptions and credit purchases
as of March 7, 2013; Flows to cash and miscellaneous assets not shown.

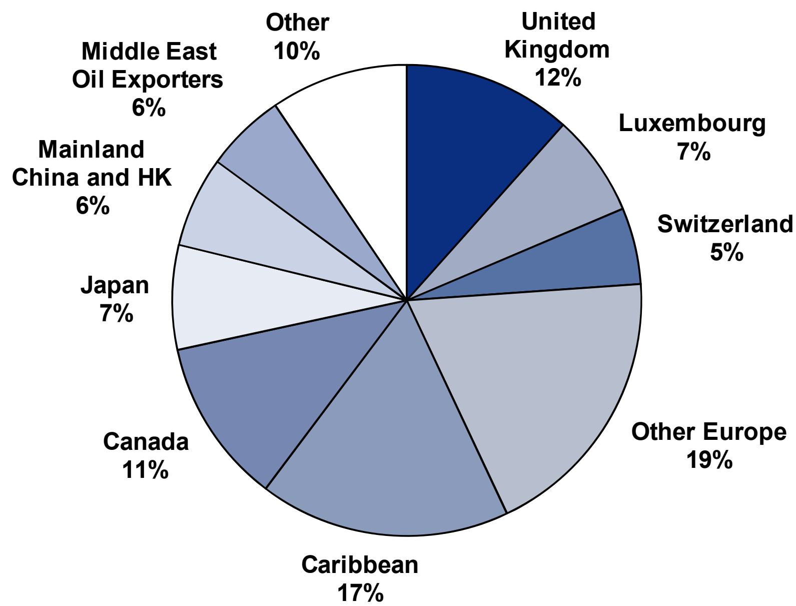


Source: Federal Reserve Board and Goldman Sachs Global ECS Research.

Foreign ownership of US equities increasing

International investors own 14% of the US equity market, the highest percentage in the 68-year history of the data series. One-third of foreign ownership of US equities is held by residents of the United Kingdom (12%), Canada (11%), and Japan (7%). Another one-third is held in regions typically considered tax havens, such as Luxembourg, Switzerland, and the Cayman Islands.

Exhibit 23: US equity ownership by region
as of December 17, 2012; holdings as of September 30, 2012



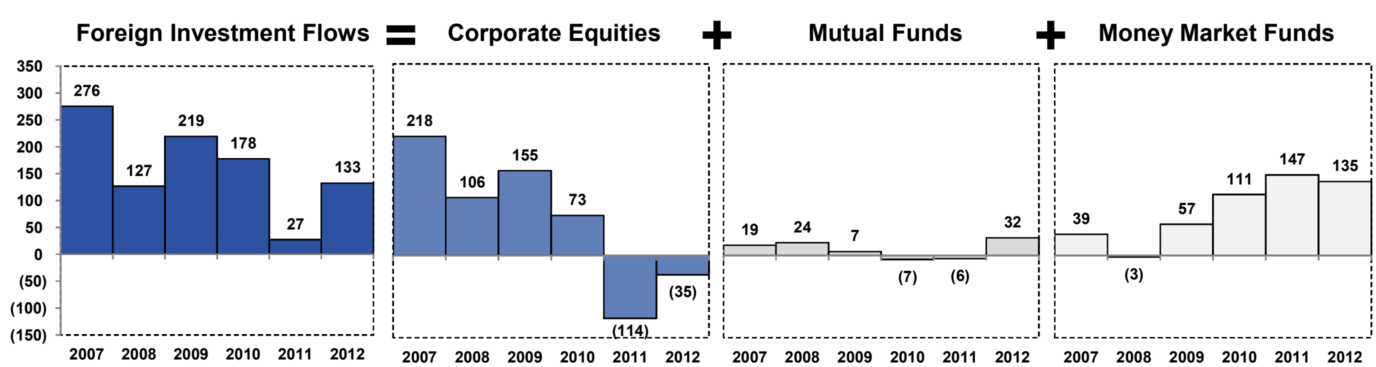
Note: Includes common stock, mutual funds shares (including money market mutual funds) and other forms of ownership.

Source: Department of the Treasury and Goldman Sachs Global ECS Research.

US equities in the Treasury International Capital (TIC) System include mutual funds and money market mutual funds. The Flow of Funds report disaggregates this further. Recent foreign investment has favored money market mutual funds over mutual funds and corporate equities. Foreign investment in equities averaged $75 billion per year since 2000.

Regional diversification is a two-way street. US purchases of foreign equity averaged $90 billion per year since 2000.

Exhibit 24: Foreign investment has favored money market mutual funds in recent years
as of March 7, 2013

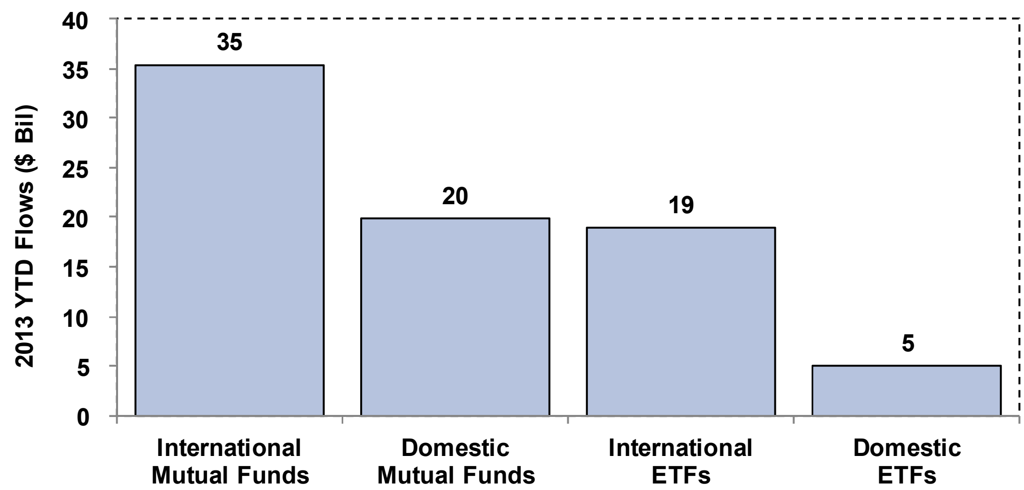


Source: Federal Reserve Board and Goldman Sachs Global ECS Research.

Domestic and international equity inflows in early 2013

Weekly ICI data shows that domestic equity mutual funds reported $20 billion of inflows during the first two months of 2013. Using Lipper and ICI data, US equity ETFs flows totaled $5 billion. International mutual fund and ETF inflows still outpace domestic flows ($35 billion and $19 billion, respectively).

Exhibit 25: Equity flows favor international equity mutual funds (January-February 2013)
as of March 7, 2013

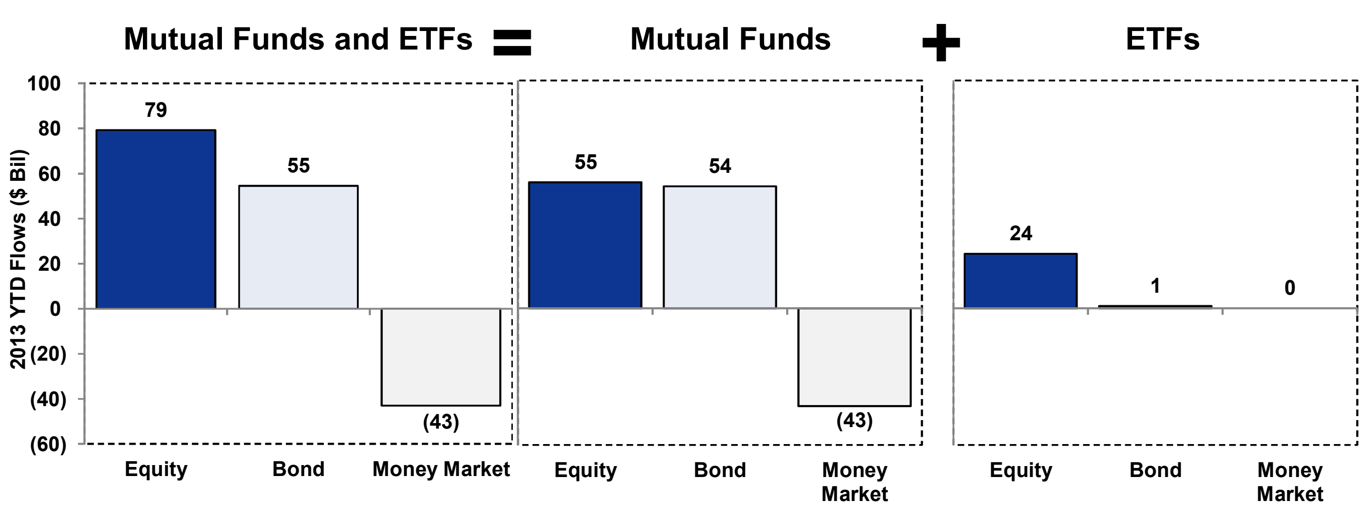


Source: Lipper, ICI, and Goldman Sachs Global ECS Research.

Equity inflows outpaced bond inflows in the first two months of the year. Bond mutual funds and ETF inflows totaled $55 billion in the first two months of 2013. Year-to-date bond flows favor mutual funds over ETFs.

Money market mutual fund outflows continue in 2013. Year-to-date outflows totaled $43 billion following $1.2 trillion of outflows between 2009 and 2012.

Exhibit 26: Equity and bond flows positive in 2013
as of March 7, 2013; flows as of February 27, 2013



Source: Lipper, ICI, and Goldman Sachs Global ECS Research.

Disclosure Appendix

Reg AC

We, Amanda Sneider, CFA, David J. Kostin, Stuart Kaiser, CFA, Ben Snider, Peter Lewis and Rima Reddy, 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.

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