

TEMASEK HOLDINGS

Temasek Holdings: With Tomorrow in Mind

*Remarks by Ms Ho Ching
Executive Director and CEO, Temasek Holdings
At “An Evening with the Junior Pyramid”*

12 May 2009

Mr Teh Hua Fung, President of the Junior Pyramid
Ladies and Gentlemen, good evening.

Introduction

- 1 I would like to first thank the Junior Pyramid for your kind invitation to join you tonight.
- 2 Temasek will be celebrating its 35th anniversary this year, on 25th June, next month. I take this opportunity to briefly share the story of Temasek’s growth and development, and our aspirations for the future.

Sweat Capital

- 3 Former Deputy Prime Minister and the economic architect of modern Singapore, Dr Goh Keng Swee wrote in 1972: “One of the tragic illusions that many countries of the Third World entertain is the notion that politicians and civil servants can successfully perform entrepreneurial functions.” He was very clear that politicians and civil servants should focus on what they do best, and leave businesses to entrepreneurs and professional managers.
- 4 Thus was Temasek incorporated in 1974. It signalled the Singapore Government’s move away from being a direct owner and operator of

businesses, to being a policy maker and market regulator. As an investment company, Temasek became the asset owner and a commercial investor, albeit one wholly owned by the Government.

- 5 An eclectic mix of some 35 investments valued at about S\$354 million were transferred to Temasek. These mostly start-up companies included a shoe manufacturer, a bottled chicken essence producer, and a budding airline with a domestic island market that is 40km wide and 24 km deep.
- 6 Much has come to pass since those pioneering days in 1974.
- 7 Our portfolio now includes corporatised entities such as SingTel and SingPower. These were transferred to Temasek in the early and mid-1990s. We have grown and transformed alongside these and earlier Temasek-linked companies or TLCs.
- 8 Our portfolio also includes more recent investments in emerging champions around Asia, as well as start-ups like Tiger Airways. We sponsored new initiatives such as the CitySpring business trust. We also pioneered the debt securitisation of a sub-portfolio of private equity funds, a first for Asia. The recent investments post the 1990s now constitute over 40% of our total portfolio.
- 9 We have essentially grown a portfolio of “sweat capital” – these have been built up and accumulated through decades of sweat and hard work as well as through imagination and bold decisions in our TLCs and in Temasek.
- 10 As at 30 November 2008, the market value of our portfolio stood at a total of S\$127 billion¹, down 31% from our March 2008 portfolio value of S\$185

¹ In comparison, Temasek’s portfolio fell in three consecutive years from a previous dotcom peak of about S\$100bn in March 2000, to about S\$60bn in March 2003, a drop of some 40%, following the dotcom bust, 9/11 and SARS.

billion. The global financial crisis has reset our portfolio value back three years to March 2006 levels.

Evolving with Asia

- 11 Up till the late 1990s, Temasek's exposure had been predominantly to Singapore followed by the OECD economies. Our exposure to the rest of Asia was small and indirect, through some of our TLCs.
- 12 We decided to tap on Asia's potential, and shift directionally towards a long term mix of about one-third Singapore, one-third rest of Asia, and one-third OECD economies.
- 13 Why had we done so?
- 14 If we looked back, it was clear that the success of our TLCs mirrored Singapore's transformation. With innovation and productivity, these companies leveraged on Singapore's location as a natural hub. In turn, they added symbiotically to the competitiveness and strength of the Singapore hub through their efficient delivery of various services. An example is PSA - it leveraged Singapore's location to become the world's largest container transshipment hub, and in turn PSA deepened Singapore's competitive advantage as a logistics hub.
- 15 If we looked forward, China and India were clearly transforming. They were integrating themselves into the global economy. There was no turning back. Thus, it made sense for Temasek to add more exposure to Asia, just as we had earlier grown with a concentrated exposure to emerging Singapore.
- 16 A one-third Singapore exposure plus a one-third OECD exposure would provide us a stable anchor, with stronger growth opportunities at higher risks coming from the remaining one third exposure to emerging Asia.

- 17 This broad macro balance between growth opportunities and risks is at heart also a strategic intent to leverage the transformation of Asia, just as we had leveraged Singapore's transformation a generation earlier.

Doing Things Yesterday and Today

- 18 What else did we do?
- 19 Since 2004, we have published our Temasek Review annually. Our purpose was not transparency per se, but really to put out a public marker of our key performance indicators, whether good or bad.
- 20 We have been credit rated by international rating agencies since 2005. These ratings serve as tripwires, additional public markers of our financial position and our credit risks.
- 21 We have raised an international 10-year bond in 2005. With this, we have imposed yet another group of stakeholders on ourselves. The bond spread is also another market signal, like a singing canary in a coal mine. We were no longer just responsible to our shareholder, but also to our bondholders. We hope to establish a series of different tenured bonds for a more robust and nuanced signal over the longer term.
- 22 These three sets of public markers go hand in hand with our deliberate move to demystify Temasek and transform our portfolio over the last several years.
- 23 We believe corporate citizens like ourselves also have a responsibility towards the wider community. Each year since 2004, we have been setting aside a share of our excess returns above our cost of capital, as our community contribution. Three years later, we formalised this commitment by anchoring the Temasek Trust with an initial gift of S\$500 million.

- 24 On one hand, the Trust sponsors and supports approved beneficiaries such as the Temasek Foundation. On the other hand, the Trust re-invests with Temasek on a commingled basis. This creates yet another interested stakeholder to track the performance of Temasek over the long term.
- 25 As you can see, apart from an active program of portfolio transformation, we have been working just as hard, especially over the last five years, to create and engage with a broader group of long term stakeholders. This forms our institutional framework to maintain discipline and deliver value.

With Tomorrow in Mind

- 26 Finally, I would like to share some thoughts on the future.
- 27 Our Temasek Charter was first published in 2002. This is a living document to outline our relationships with our shareholder and our portfolio companies, as well as our role as an active investor. With support from our shareholder, we have been reviewing our Charter over the last three years – it is timely to update it in conjunction with our 35th anniversary this year.
- 28 Similarly, we have also been re-assessing our long term portfolio balance over the last two years. As I mentioned earlier, we had looked at a balanced exposure between growth and risks. As Asia continues to develop, it continues to de-risk. We are increasingly more confident of Asia's future.
- 29 We debated whether to raise our long term Asia exposure, and add new exposures to other geographies as well. This is what we described internally as a 10:20:30:40 portfolio mix – this means maintaining our exposure to rest of Asia at 40%, keeping Singapore at about 30%, reducing OECD exposure to 20% and adding exposure to other geographies such as Latin America, Russia and Africa of up to 10%.

- 30 Our rest of Asia exposure has been over 40% the last two years. Should we reduce our Asia exposure, or maintain this overweight for the long term? This rebalance is not a rigid target, but a re-weighting of the growth trends and the changing risks over the next decade or two, particularly for Asia. It also framed our decision to open new offices in Mexico and Brazil last year.
- 31 In short, we will continue to invest like a 35-year old with a dynamic balance for the long term. Half a century ago, one 35 year old became the first Prime Minister of Singapore. He needed to find robust solutions for the long term survival of his tiny island state. He too balanced risk taking and bold decisions with a careful husbanding and accumulation of people and resources. In so doing, he shaped a colonial outpost into the metropolis that he saw in his mind's eye and built a future for the people of Singapore.
- 32 Likewise, we invest with the appetite of a young 35 year old for growth and risk-taking. At the same time, we also share his thoughtful conservatism to plan and provide for his children's needs for another 10 to 20 years, while he invests to build his rainy day and retirement kitty with a 30 to 50-year horizon.

Conclusion

- 33 In conclusion, let me quote Mr S Rajaratnam, the founding Foreign Minister of Singapore. On the eve of the 2nd National Day of Singapore in 1966, he said in his National Day Message:

“We must do things today with tomorrow clearly in our minds.”

- 34 The story of Temasek is likewise a journey, each generation doing things yesterday and today with tomorrow very clearly in our minds – to make a difference to our fellow men and women, to support and build a future where Asia and Singapore can realise their full potential for their people,

and to put in place the foundation for a better tomorrow. We build for our next generation brick by brick, piece by piece, steadily step by step, even as we ride with the waves and turn the troughs of the global economy into opportunities to build for the future.

Thank you.

--- ends ---