TEMASEK HOLDINGS

Temasek Review 2009 Media Conference
Thursday, 17 September 2009
Key Questions and Answers

Question:

Rico Hizon, BBC

I would like to ask you a question about the CEO succession issue. Is Temasek Holdings still seriously and actively looking for a new CEO after the shock departure of Chip Goodyear last July?

Answer:

Ho Ching, CEO

We place a lot of emphasis on governance, particularly board governance. One of the critical responsibilities, in fact we think the most critical responsibility of any board, is to look at CEO renewal and succession.

So, since early 2005, we have had an annual exercise, where we will look at potential candidates for CEO, inside and outside Temasek. That process continues.

Question:

Gabriel Chen, The Straits Times

I just want to refer you to page 28 – if you look at the section on Expenses, Selling & Distribution, Administrative and Finance expenses are pretty stable, but Other Operating Expenses almost doubled. Can we get more colour from that – what led to that?

Ho Ching, CEO

What we have done in our Temasek Review is to provide the group financial summary. So in this group financial summary, it would include the information as an aggregate, on a consolidated basis of our subsidiaries as well as ourselves, so it is a group number.

And if you look at the other operating expenses, it will include things like real estate valuation numbers, and this can go up and down every year. And as you can see from last year, there was a major correction, and (the effect) of the major correction will be in there.

Question:

Gabriel Chen, The Straits Times

Does it include marked-to-market losses?

Answer:

Ho Ching, CEO

No

Question:

Adam Barkhtiar, CNBC

Couple of questions, one, I'd like to address your portfolio reorganisation in terms of what sectors will Temasek really be looking at. Given that you have disposed stakes in key Western financial institutions such as Bank of America, Merrill Lynch and Barclays, can we draw the conclusion that perhaps investments in developed nations are not top of your agenda? And if you're looking at emerging markets, what sectors exactly are you looking at investing in?

Answer:

Ho Ching, CEO

What we try to do is to construct a portfolio that will give us sustainable returns. To do that, first and foremost, we look at the long term trends, and invest into those trends – sectoral trends, long term growth in terms of an economy that is undergoing transformation.

When it comes to the developed economies, we remain open. We are still open to investing in financial institutions, if and when the right opportunity comes, if and when the right valuation comes.

As for emerging economies, we are looking for areas where we think there will be sustainable long term growth, and invest into that.

So one of the things we look very closely at will be anything that is a proxy for the economy. And these will be areas like banking and finance, infrastructure, transport and logistics. And as economies grow, we think that the middle class will grow, and therefore we look for areas which will be proxies for middle class growth.

These will be education, healthcare, telecommunications, consumer finance, micro finance and such. So those would be the big trends that we are looking into.

Question:

Adam Barkhtiar, CNBC

In the early 90s, with the listing of SingTel, the market portfolio of Temasek jumped up exponentially. So is there a case to be made for perhaps, embarking on the listing of your other non-listed assets to increase the portfolio size, because there is of course an intrinsic value of these assets being listed – as opposed to not being listed and you marking them at book value.

Answer:

Ho Ching, CEO

Most of our portfolio is already listed. When it comes to listing of unlisted assets like Singapore Power or PSA, we'll leave that decision very much to their boards, as to when they think they need to tap the capital markets. We do not list for the purpose of making our portfolio look good.

Question:

May Wong, Channel NewsAsia

Temasek has actually made some losses and you have actually said that there's been some recovery. Can you shed light as to in terms of how much recovery, in terms of monetary value, and where are these coming from and also you outlined some of the mid-term challenges as well as the long-term. Looking ahead, can you also tell us what is your positioning in terms of how you are going to tackle these challenges?

Answer:

Ho Ching, CEO

Well in the last four months, the markets have recovered in general. Our portfolio value rose about S$42 billion to S$172 billion. These will be mostly marked-to-market positions because we use the last audited numbers for the unlisted assets.

In terms of the medium term risks, two years ago, we thought that there could be a risk of a downturn, we didn't anticipate that it will be so serious and we didn't anticipate that it will originate from the US. But because of that position, we consciously and very deliberately decided to build up a stronger net cash position and that has put us in good stead. Looking forward, I think there will be some medium-term risks but I think we have the full flexibility to do what we have to and to think of what we should do for the long term. So as far as we are concerned, we are in a fairly comfortable position.

Question:

Peter Stein, Wall Street Journal

Your combined investments now in Singapore and Asia amount to about 74% of your assets. You talked about the 40-30-20-10 ratio which shows that you are actually more overweight in Asia than in Singapore. Does that mean you would, all things being equal, divest away from Asia into other markets such as Latin America and the Middle East?

Answer:

Ho Ching, CEO

When we put the 40-30-20-10 ratio, it is a directional indication of where we would like our portfolio to be. It is not cast in stone, it is not fixed. It is like an individual that says, I would like to invest something in real estate, put aside something for my kids' education or whatever it is.

You have a broad allocation but because we are not a relative returns investor, we are not benchmarked against a fixed portfolio mix, so we have the full flexibility to shift and to move where we see the long term trends are.

Today I would say directionally we probably will continue to overweight more in Asia. We are not forced to reduce weight in Asia just to meet some targets.

Question:

Peter Stein, Wall Street Journal

The decisions to sell Barclays and Bank of America – in light of the market rebound since 31 March 2009, it now seems that you could have gotten a better return had you chosen to hold on to these investments. Are these decisions to sell out a mistake? Are there any lessons you took away?

Answer:

Ho Ching, CEO

We have the flexibility to hold, increase or reduce our stakes in any investments. We have also had the flexibility of going back into investments we have exited, and we have done that before in the past. In terms of looking at whether we should have exited or held on to Bank of America or whether we should go back in and reinvest – I think these are questions that we do not address as a single point decision. We look at it in a context of an entire portfolio.

Within the context of an entire portfolio, we are comfortable where we are at. We have participated in the rights issues of some of our portfolio companies and those rights issues have given us good returns, along with investments we have made elsewhere.

Question:

Chris Wright, Euromoney Asia, Asiamoney

The geographical area where you appear most underweight today as compared to where you hope to be is Latin America. To go from that 4% to the target 10% target implies quite a significant investment of about $10 billion.

Answer:

Ho Ching, CEO

We say this directionally. We have on many occasions nuanced it by saying that this is up to 10%, so we are not in a hurry to beat the 10%. We take the view that we are owners, and therefore we have the flexibility of not investing or not putting our money to work if we think it is not the right time.

Typically, in going into new markets, we would like to look for partners and we would co-invest with partners. On other occasions we would invest in funds, so that we have a view. As for Latin America, we have studied it since three and a half years ago. We looked at it for quite a while before we decided that we will open up offices there. We have an office in Sao Paolo and another in Mexico. The team there has considerable experience and will add value to us,

Question:

Saeed Azhar, Reuters

In your earlier comments you talked about going into emerging economies, you also said when it comes to developed economies, in the same sentence you said that we are open to investing in financial institutions if and when the right opportunities come. When you talk about financial institutions here, are you just talking about global financial institutions or Asian financial institutions?

Answer:

Ho Ching, CEO

In terms of investing in financial institutions, I think there are two aspects when we look at financial institutions, quite apart from the value test.

The first aspect as I've mentioned earlier, we look at some of these financial institutions as proxies for the economy as a whole, and therefore we make our decisions looking around that issue.

The other possibility will be looking at institutions; this is not just limited to financial institutions, but really looking at companies where they may be doing a transformational deal or they may be themselves in transformation or at an inflection point. Those would be companies that would be of interest to us as well.

Question:

Joyce Koh, Bloomberg

You said that you did not anticipate the speed and depth of last year's financial crisis. Can you tell us on hindsight what you could have done better to read the market? Looking ahead, is there anything in place to make sure this does not happen?

Answer:

Ho Ching, CEO

One of the assumptions which turned out wrong, or we had taken for granted, is that we were looking at the markets and felt there could be a downturn because of different indicators. But we were looking at the triggers in the wrong places and part of the reason is because we made the assumption that the developed economies, particularly the large economies are well managed and the regulatory risks are low. Hence we did not pay that much attention.

Going forward today, we pay a lot of attention to what is being said and done in the US, even when we do not have large exposures there, as that can affect the rest of us. That would be one major change.

Question:

Siow Li Sen, The Business Times

You have said that going forward you are going to overweight Asia. Are you worried about the possibility of bubbles building in some of the assets?

Answer:

Ho Ching, CEO

Yes, there are some signs of that. When we are looking at overweighting Asia, we are talking in terms of the longer term, not necessarily for the short term. We maintain the full flexibility to shift our stance.

Question:

Siow Li Sen
Just to clarify, so that could mean you could be selling some of the Asian assets?

Answer:

Ho Ching

Possible - not that I am saying that we will, but I am just saying it is possible.

Question:

Minerva Lau, PFI

You are overweight on Asia. Can I just have your opinion on how you will be investing in countries like India and China, which are the two countries leading the recovery of the global economy.

Answer:

Ho Ching, CEO

Most people think of China nowadays as one that has passed the inflexion point, unlike in the early 1990s where they were not certain whether they will go market economy or sort of fall back on a planned economy. So, today I would say that China has passed that. They have demonstrated a very strong capacity and capability to integrate with the global economy.

I think their decision in the mid 1990s to join the WTO was a big impetus. They are transforming their SOEs. If you look at their SOEs today, they are profit-generating compared to the 1990s where they were not well-run. Today you see a very vibrant economy where, at the state-level, they understand what market economy is.

In the private sector, in the privately owned enterprises, or the POEs, there is a lot of verve and vitality. If you look at China over the long-run, we think the potential is there and is very strong.

India is another economy that we believe has very deep potential. They started off differently from the Chinese. They were not going from a socialist planned economy into a market economy. They have always been open, ostensibly market economy. But what has happened is that instead of closing in, they have liberalised. And that has released a lot of entrepreneurial energies among their people, small and large corporations.

If you look at a company like Bharti, this is a first generation founder who has done very well, grew with India, and is now expanding beyond India 's shores. And you see many of these types of entrepreneurs in India at every level, in different states.

So we think that India going forward has passed the inflexion point. I think today the Indians are very comfortable to be connected to the world, they are no longer afraid of the world. They are out to grow very strong companies.

In the short term, there may be some risks. But if we look at the longer term and invest based on fundamental views rather than just trying to catch the momentum of the market, I think we will do well by focusing on these two economies.

Simon Israel: As an additional aspect, if I just bring you back to the distribution of our portfolio which represents investments in the underlying assets, and some of those are major positions held by portfolio companies in which we are invested. So, as you think about our exposure to China and India , you also have to think about it in the context of what our portfolio companies are doing in those countries.

I think companies particularly such as Standard Chartered, SingTel, and CapitaLand are very well-positioned both in terms of their market position as well as financial position to capitalise on those opportunities. So, we participate through the direct investments we make, and also investments by our larger portfolio companies.

Question:

Gao Chuan, Xinhua News Agency

What is the current ratio of Temasek's investment in China in overall investment portfolio and does Temasek plan to increase investment in China and what sectors?

Answer:

Ho Ching, CEO

For China, it will be the second largest investment destination after Singapore. It's probably 20-25% of our portfolio and we have got two offices in China today in Beijing and Shanghai. We are still mulling over whether we should open more offices in China, particularly to give us better reach into the privately owned enterprises which is a very vibrant sector in China.

Question:

Gabriel Chan, The Straits Times

Can we get a sense were there any pay cuts in the last financial year for senior management?

Answer:

Ho Ching, CEO

We have announced that we have a pay cut starting January this year of up to 25% across the board so the senior guys get more pay cut and the junior guys get less pay cut.

(Note: Temasek made an announcement of company-wide voluntary paycut on Nov 21, 2008)

Question:

Gabriel Chan, The Straits Times

Are you going to reinstate it?

Answer:

Ho Ching, CEO

We haven't talked about that yet.

Question:

Conrad Tan, The Business Times

If I could just ask a related question, are you thinking perhaps of revising your compensation structure looking at the negative wealth ended for the most recent financial year, it looks like quite a lot of the bonus awarded in the previous year would have been clawed back. Is that an issue for retaining staff, especially since market sentiments seem to be turning around now?

Answer:

Ho Ching, CEO

We designed this compensation system to align our staff with the shareholder over the long term. I think we should continue with it.

Question:

Joyce Koh, Bloomberg

State investment companies have played a big part in shoring up companies during the financial crisis. So, looking ahead, how do you assess the role of these state investment firms?

Answer:

Ho Ching, CEO

I can't speak for the other state investment firms. We don't see our role as shoring up anybody. We see our role as getting a return and if there are opportunities for return, we will be there. If we think the return doesn't justify the risk, we won't be there.

Closing remarks:

Ho Ching, CEO

I just want to close by saying that we are a long-term investor. We invest for the long term, but that doesn't mean that everything that we have, we will hold for the long term. We have the flexibility to adjust as and when we have a view.

We own a portfolio of blue chip companies in Singapore, Asia and I hope increasingly, in regions like Latin America. I think this is the way that we aim to build up our portfolio to provide sustainable long-term returns for our shareholder and also, for our other stakeholders.

And in that respect, I think we are very well positioned for the future. Thank you very much.

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