TEMASEK HOLDINGS

Transcript of Q&A with Mr S Dhanabalan, Chairman, Temasek Holdings

at the TiE Luncheon, August 21, Singapore

Q (Citibank): SWFs' portfolio of investments usually comprise investments in large corporates or large projects. Do you thinks SWFs have a role to play in the small & medium enterprise sector as well, probably by funding companies to promote entrepreneurship?

Mr Dhanabalan: I can't speak for other SWFs but in the case of Temasek, we do participate indirectly in the funding of smaller companies because, apart from direct investments, we also invest in funds, private equity and venture capital funds. And some of these, I am sure, do get involved in smaller companies.

We do also invest directly in small investments, in companies that are not very large but which have the potential to grow. One of the themes of Temasek in investments is to look for companies that are on the cusp of becoming champions in their fields. So, they may not be very big but you see the potential in them.

I cannot know about other SWFs but we can see this.

Q (BNP Paribas): I think that Temasek has consistently made the point that it is different from the conventional sovereign wealth funds which include GIC. I am curious to know with the recent transactions where Temasek and GIC were in the spotlight, what would be the difference, from an investment point of view, of Temasek's investment in Merrill Lynch and GIC's in UBS?

Mr Dhanabalan: I can't speak for GIC. I am not here to speak for them. I used to be on the Board but I resigned several years ago.

I think the reasons for the investment in Merrill Lynch are pretty obvious and they have been made public. We saw an institution that has good management, especially the new management, with a good business. We thought the price was attractive for us to go in. We also knew that though the price was attractive, it was very likely that the price would go below where we invested but we were looking at it for the longer term – five to seven years.

So, the considerations for the investment were really not very different from an investment in any other company. The only difference being that under normal circumstances, we would not have been able to invest such a significant investment in a leading Wall Street investment banker.

As usual, the turbulence in the markets creates opportunities for some of us but we have to be careful about where we invest. The considerations are really not very different from any investor looking at the market and deciding whether or not to invest.

I am not sure whether your question is premised on having some other non-commercial reason which is what I was trying very hard in the speech to tell you that we are driven by commercial considerations.

Obviously, we cannot reveal to you all the things that we know which made us go into the company.

Q (Reuters): A follow up to the previous question. Is Temasek prepared or is keen to invest more money in either Merrill or another Western bank?

Mr Dhanabalan: It depends. You can't say before the event whether you are keen or not keen. If there is an opportunity, we will look at it. Whether we do or not, depends upon how we assess the risks and returns.

Q (Reuters): But will you have the cash and resources to make another big investment?

Mr Dhanabalan: Well, there are many considerations. Again, having the resources is one thing. Diversifying of risks is another thing. So, it's not a question of one particular item – that we have the cash.

Q (Standard Chartered): What do you believe Temasek can generate fundamentally [garbled speech], an excess return against an index, S&P 500 or Hang Seng Index etc.?

Mr Dhanabalan: I don't know whether that is a fair comparison as we are not investors in the public markets. Many of the companies in which we are invested are publicly listed, that is true. But we are not the conventional public market investor. We are a long term, direct investor in enterprises and we hold our investments long time – for some of the companies, we have been there for more than 30 years. So, we ride the ups and downs of the economy and we were successful.

I am not claiming that we have special insight that enables us to outperform the market. We certainly look at what the public markets returns are but that is not what drives us.

Moderator: 17, 18% over 20, 30 years is a formidable track record, comparable to the public markets.

Mr Dhanabalan: But if you look at our returns over various periods, there were periods when the returns were very low. But we didn't panic, we didn't exit.

Q (Citibank): What is your personal take on the US market in the coming seven to 10 years, considering that it is still the biggest consumer market, by a big margin?

Mr Dhanabalan: I wish I knew because I would then be the one investing in the market. There are as many views as there are people making the view.

Q (Citibank): You mentioned in your speech, that in the coming 10 years, the total investments by SWFs would be close to US$30 trillion. According to you, how would you see the geographical distribution of those investments?

Mr Dhanabalan: Did I say 30 trillion? Anyway, the number would be a lot.

Each SWF would probably have its own policy on where it wants to grow its money. There are certain fundamental principles – you have to be diversified, you have to go where the growth is rapid, which means basically many of the emerging markets. You also want to be in the well-developed markets because the risks are less. It's a matter of balancing your whole portfolio.

We are presently very heavily invested in Singapore. We will continue to be in Singapore but our growth outside of Singapore will be higher; therefore our Singapore portion will shrink.

Q (Reuters): On diversification – now that Temasek is opening offices in Latin America, what would the allocation be like? Previously it was one-third Singapore, one-third emerging Asia and one-third OECD. So now that we have Latin America, Africa and the Middle East coming into the picture, what would the breakdown be like?

Mr Dhanabalan: The breakdown in terms of geography was originally one-third Singapore, one-third Asia and one-third OECD. Asia was another way of saying emerging fast-growing markets. Obviously, we have widened the definition to include other markets like Latin American markets.

We are very opportunistic. We don't say we need to have so much in this market and therefore let's go invest. If the opportunity arises, we will invest. We have no prior sort of proportionality – we must invest so much in Brazil or Mexico or whatever it is. We have offices there, they will look for opportunities and if opportunities come, we will invest.

The ratios don't drive our investments, it's more an outcome.

Q (Reuters): How about the Middle East and Africa?

Moderator: I think that answer lies in the answer you gave earlier. There's no such thing as fixed percentages. Thank you.