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## Temasek's pivot to private investment heralds billion-dollar listed asset sales

By Saeed Azhar

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A staff member is reflected in a Temasek Holdings logo at their headquarters before the presentation of Temasek's annual review in Singapore, in this September 17, 2009 file picture.

Credit: Reuters/Vivek Prakash/Files

(Reuters) - Singapore's Temasek Holdings is shedding the skin of a sprawling sovereign investment house, cutting stakes in big publicly listed companies as it puts more money into growing private companies and private equity firms in search of better returns.

Under the guiding hand of chief executive Ho Ching, the wife of Singapore's prime minister, the \$170 billion state investor is morphing into a leaner form. The firm's returns have often lagged its own internal metric in recent years due to its focus on big stocks.

The evolving strategy at the world's ninth-largest sovereign fund is significant to corporate and financial professionals across the globe. Temasek TEM.UL deals worth S\$159 billion (\$126 billion) in the last 10 years have generated big bankers' fees.

New-look Temasek is already showing that it will shed more stakes and be more selective in providing money to large, listed global companies that come knocking in their hour of need, as they did before and after the 2008 financial crisis.

The state investor has been seeking to sell a stake in Thai telecoms operator Shin Corp INTUCH.BK worth about \$3.1 billion by market value, as reported by Reuters last month, and last week was arranging the sale of a stake in Seoul Semiconductor Co Ltd (046890.KQ).

"Now they're allocating capital in smaller chunks to these publicly listed firms, so that they are no longer a significant stakeholder in the company," said Melvyn Teo, a professor of

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finance at Singapore Management University who has observed Temasek's strategy closely over the years.

Temasek has also increased investments in unlisted companies, such as the \$500 million stake it bought in financial data provider Markit Group last year. Holdings of this kind accounted for 27 percent of its portfolio by the end of March 2013, up from 22 percent at end-March 2011.

Jeffrey Fang, a Temasek spokesman, said, "As an investor and owner, Temasek has full flexibility to deploy our capital across a range of company structures, geographies and sectors."

## EQUITY SWITCH

The imperative for the changing times at Temasek is straightforward: improve investment returns to meet management targets at the ambitious sovereign investor.

It posted a total shareholder return of 9 percent annualized over the last three years in U.S. dollar terms up to March 2013. That outpaced the 6.24 percent rise in the MSCI AC Asia ex-Japan Total Return Index over the same period, according to Thomson Reuters data.

But Temasek's own key metric - gains after the cost of capital - fell below its benchmark in two of the last three financial years. The benchmark is between 8 and 9 percent, its annual report showed.

According to a report compiled by investment consultant Cambridge Associates, average rates of return at buyout and growth-equity funds were up across all regions in the 12 months ended June 2013. U.S.-focused funds led the way, posting an 18 percent gain, Western Europe-focused funds returned 13 percent, while emerging market funds delivered 9 percent.

Temasek does not break down returns from its private equity assets, which include firms run by its former officials. It funded Singapore-based Pavilion Capital, headed by former chief investment officer Tow Heng Tan, that invests in North Asia, and the firm also co-manages some investments with Temasek, a person with knowledge of the matter said.

Hong Kong-based RRJ Capital, run by ex-Goldman Sachs executive Richard Ong and former Temasek executive Charles Ong, is another firm into which Temasek has invested. It also funded Seatown, a diversified Singapore-based investment manager that is headed by a senior Temasek executive, Jimmy Phoon.

The investment approach now coming to fruition is a far cry from the multi-billion dollar deals Temasek embarked on prior to 2008, garnering significant stakes in leading companies across Asia, Europe and the United States.

"Temasek is carefully staying away from 'big-bang' deals, which is a deviation from the past," said a person who regularly presents investment ideas to the Singapore state investor. "There is no desire to take substantial positions or controlling stakes in companies anymore."

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As a result of previous strategy, 10 investments in large companies now account for more than half of Temasek's portfolio, which includes stakes in London bank Standard Chartered PLC (STAN.L), Singapore telecommunications group SingTel (STEL.SI) and China Construction Bank (601939.SS).

## HO'S NEW CHALLENGE

Addressing the below-target returns has presented a fresh challenge to Ho, who has raised Temasek's global profile from that of a small, government bureaucracy to a modern-day investment house in her more than 10 years at the helm. "I sense there is some housekeeping going on," said Song Seng Wun, an economist at Malaysian bank CIMB.

People who have worked with Ho, now in her early 60s, say she is a hands-on leader. Trained as an engineer and married to Singapore PM Lee Hsien Loong since 1985, they say she's involved in all the big decisions at Temasek, including its current direction.

But Temasek faces political and regulatory obstacles in the pursuit of its current strategy.

Nowhere was this more clear than with the failed takeover of Indonesia's Bank Danamon (BDMN.JK) by Singapore's DBS. Temasek owns stakes in both banks - meaning a successful deal would have given the fund a single holding in both financial markets. The deal collapsed because of new Indonesian rules that restricted ownership of banks by single investors.

The Shin Corp sale is another example of such a road block. Temasek is trying to get SingTel to buy the Shin Corp stake - again, an attempt for a single holding in two markets - but the Thai political unrest has delayed the deal.

"Temasek is somewhat unique ... because if it's too directly involved in a company, there can be worries among outsiders that potentially it is exerting some political influence," said Singapore Management University's Teo.

(\$1 = 1.2638 Singapore dollars)

(Reporting by Saeed Azhar; Additional reporting by Stephen Aldred, Denny Thomas and Nishant Kumar in HONG KONG; Editing by Michael Flaherty and Kenneth Maxwell)