

**SPEECH BY MR THARMAN SHANMUGARATNAM, MINISTER FOR FINANCE, AT
PARLIAMENT SESSION, 28 MAY 2009, 1:30 PM AT PARLIAMENT**



1. Mr Inderjit Singh and Ms Sylvia Lim had filed questions about Temasek's rationale for the sale of its shares in Bank of America (BoA). Temasek has since explained why it did so, in its letter to the press last week. I will summarise Temasek's reasons.

2. Temasek invested in Merrill Lynch in Dec 2007. Following the completion of BoA's offer to buy Merrill in Jan 2009, Temasek's investment was converted into BoA shares. Temasek reassessed the case for holding on to the investment for two reasons. First, the acquisition of Merrill by BoA meant a different investment proposition for Temasek, with different implications for the risk profile of its overall portfolio. The investment thesis had changed, from the original focus on Merrill's specific businesses to BoA's linkage to the broader US economy. Second, Temasek also assessed the risk-return environment to have changed substantially. It decided to divest the BoA stake after considering all relevant factors.

3. The sale of its BoA stake does not signify a shift in Temasek's investment orientation, from long-term to short-term. Temasek is a long term investor, not a short-term trader of assets. It generally goes into investments expecting to hold them for some time - and this was indeed Temasek's intention when it invested in Merrill. But being a long-term investor does not mean being locked into every individual investment, regardless of major changes in the environment or a new investment proposition. Rather, Temasek regularly reassesses the risks and potential returns on its investments, and rebalances its holdings when it considers necessary to enhance the long term value of its overall portfolio. This means that Temasek may divest an investment, even at a loss, to get a better mix of risks for its overall portfolio or to position itself to take advantage of opportunities elsewhere.

4. Such rebalancing is a standard practice and discipline amongst long-term investors. The real difference is that the calculation behind any rebalancing of the portfolio is not aimed at short term returns, but the long term value of the portfolio. If Temasek had indeed been motivated by short term results, it would surely not have decided to sell BoA at this stage and realize the loss.

5. The premise behind the questions being asked, and the comments by some other members in the course of this week's debate, is that Temasek has been on a losing path, and Singapore is poorer for it. This is simply not the case.

6. Temasek has made losses on some investments, including its investment in Merrill/BoA. It has made gains on others. The only reasonable way of evaluating Temasek's performance therefore, like that of any large investor, is to look at how the losses and gains add up, and how its overall portfolio performs over time. The facts are that Temasek has produced strong returns on its overall portfolio over time – taking the investments that have done well with those that have turned bad; and taking the boom years with the subsequent years when markets went bust. Temasek has in fact made large investment gains over the course of the market cycle that began in 2003, including the boom that lasted till 2007 as well as the subsequent bust.

7. Second Minister Mrs Lim Hwee Hua had earlier provided Parliament with information on Temasek's losses between the end of March 2008 and November 2008, when markets globally went down sharply. Temasek's portfolio value declined by S\$58 bn over the period, or by 31%. I would add that a large part of this arose from the decline in value of Temasek's investments in Singapore. Of the S\$58 bn decline, S\$32 bn was attributable to the drop in market value of just the 10 largest publicly listed Temasek-linked companies in Singapore. The share prices of these Temasek-linked companies declined by about 41% on average over the period, in line with the movement of the Singapore market as a whole (the FTSTI Index fell by 40% between end-March to end November 2008).

8. What matters however is not how Temasek did in this last year, when the markets were in collapse, but how it has done over the cycle as a whole. The S\$58 bn decline in value between March and Nov 08 came after a much greater gain in Temasek's investment portfolio of S\$114 bn over the preceding five years, from the time the market cycle began in 2003. This means that even after taking into account the recent sharp decline, Temasek's portfolio had still grown by S\$56 bn over the course of the cycle. (This is after netting off all capital injections into Temasek, and dividend payments to the Government. It hence reflects only the returns on Temasek's investments.)

9. Temasek has been transparent about its overall portfolio performance, which it publishes each year in the Temasek Review. The full year accounts to end-March 2009 have not been audited, but the picture should not be fundamentally different from what I have described as equity markets globally showed no major change as at end March 09 compared to end Nov 08. The sale of the Merrill/BoA investment would not have aggravated the results either, as the position I have described up to Nov 2008 takes in all unrealized losses including the mark-to-market losses on the Merrill investment.

10. Compared to any relevant market indices, or to other reputable institutional investors, Temasek has performed respectably. Temasek has achieved total shareholder returns by market value of slightly over 15% per year on average (in US dollar terms) over the cycle. This compares with a 6% annualised gain in the global equity market indices (MSCI World). A weighted index of global, Asian and Singapore equity market indices would have delivered more than 6% but still significantly less than Temasek's gains of 15% per year. Temasek's annualised returns are also higher than what several other well-regarded investors have earned over the cycle.

11. But while Temasek has performed better than many other large investors over this 6 year market cycle, it is not realistic to expect it to outperform in every cycle. It is also not realistic to expect it to avoid losses on every individual investment, or losses on its overall portfolio when the markets go through sharp corrections.

12. Temasek, like GIC, takes very seriously every decline in the value of its portfolio, or in the value of its individual investments. But it will have to keep to its discipline – of being prepared to take calculated risks on individual investments, maintaining a diversified portfolio, rebalancing its investments when necessary to optimize the risk-return profile of the portfolio, and keeping its sights on achieving long term returns. That is how Temasek has operated successfully over the last 6 years, making good gains in its portfolio, and it is how it will seek to deliver good returns over the long term.