

SINGAPORE INC RECENT DEBATE ON TRANSPARENCY & ACCOUNTABILITY REFLECTS SHIFTS IN THE POLITICAL- ECONOMY?



Political-Economy Briefings

8 August 2012

Issue 002

Singapore SWF Temasek's returns and budget accounting Q&A

- Temasek portfolio SGD198 billion; reports an average annual return of 17% for 35 years vs Singapore stock returns averaging less than 8%. Over 20 years, returns of 16% in SGD.
- GIC portfolio estimated near SGD 390 billion; annualised rolling 20-year real rate of return of 6.8% in USD.
- Singapore's reserves are managed by three agencies – GIC, Temasek & the Monetary Authority of Singapore

Temasek: 16% annual return in SGD, 20 years

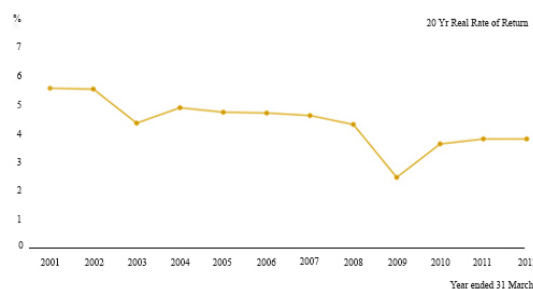
Total Shareholder Return

Period (in years)	By Shareholder Funds (%)	By Market Value (%)
Since Inception	16	17
30	14	16
20	14	16
10	12	6
5	14	11
3	7	2
2	2	0
1	26	42

Source: <http://www.temasekreview.com.sg/>

GIC: 6.8% nominal annual return (3.9% in real terms) in USD, 20 years

Annualised
Rolling
20-Year Real
Rate
of Return of the
Government's
Portfolio



Source: <http://www.gic.com.sg/quickfacts/>

EDITORIAL

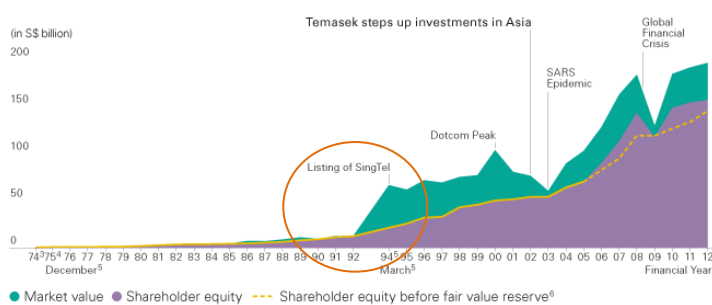
Calls for more transparency & accountability

After a long hiatus, welcome to the second Khor Reports' 'Political-Economy Briefings' We look into information on Singapore's key sovereign wealth funds (SWFs), Temasek Holdings and the Government of Singapore Investment Corporation (GIC) and issues about Singapore's public debt and budget accounting.

Much of the recent interest has been heightened by the publication of "A Brief Research Note on Temasek Holdings And Singapore: Mr. Madoff Goes to Singapore" by Christopher Balding of the HSBC Business School, Peking University Graduate School in Feb 2012. Balding boldly states: "The returns Temasek claims to have generated since its 1974 creation cannot be replicated relative to Singaporean or international equity markets. While investment funds may outperform equity markets for periods of time, it seems unlikely given the known returns of Singaporean and global equity markets that Temasek produced the returns it is claiming." The chart below shows Balding's argument which relies on comparing returns with the major equity markets.



In reply to this question, we find on Temasek's website a graph (published in its June 2012 report) explaining its returns since inception. It points to a major leap in market value from 1992 to 1994, apparently attributed largely to the listing of Sing Tel (orange circle below).



In the 1990s, Temasek reports that it acquired four corporatized statutory entities, SingTel, PSA, Singapore Power and MediaCorp. Presumably, they were bought "at a song" so that the listing of Sing Tel raised portfolio valuation by tens of billion in one fell swoop?

A blogger on Temasek Review Emeritus* explains that "the government injects its shares in Singtel and other GLCs into Temasek "at cost" of S\$20b before IPO. When Singtel went IPO, the shares were marked to market of S\$60b, hence Temasek claimed a S\$40b "profit" The key is that when the government injected that S\$20b, it was a cleaned up balance sheet. The government had written off huge sums of start-up losses, much of which were never fully accounted for. It had also valued assets which it handed over to Singtel, like those relay stations, cables, etc at probably totally written off values using government accounting rules, resulting in an absurdly low valuation... The same also happened to other GLCs like Keppel, SIA, ST, and of course SMRT, where even the operating assets used to make money like the rail infrastructure, were essentially offered to SMRT free of rent for usage."

Balding does not address these rebuttals in his blog. However, he has some other interesting questions on whether Singapore's operational surpluses can account for the balances managed by the SWFs – were there several significant de facto capital injections? Economic experts tell Khor Reports, that Singapore's budget accounting reports a 'basic balance' of a relatively narrow list of recurring items: income from taxation, civil service expenditures plus investment dividends; it excludes capital receipts from land sales and vehicle COEs etc. Singapore has enjoyed large constant surpluses except in one year, some 20 years ago. Singapore's public debt is not for funding purposes, but to develop the capital market - to build the debt market and a yield curve. Singapore's different accounting methods mean that its debt to GDP ratio is not comparable with others. The understatement of fiscal surpluses (and reserves?) situation is not new, so the recent debate and demands for more transparency and accountability are interesting. The openness and unchecked questioning seems to reflect a new mood, likely reflective of shifts happening in Singapore's political-economy.

Khor Yu Leng

Our briefings newsletter is light on our analytical comments. For in depth analysis, we offer our customized research services. Reach us via email: khorreports@gmail.com. *Source: <http://www.temasekreview.com/2012/06/issues-raised-by-christopher-balding-on-our-reserves/>

EXCERPTS

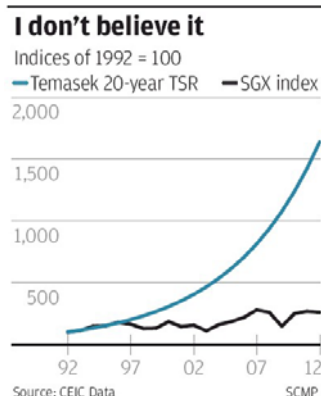
On Temasek's stellar returns – SCMP says

Balding's doubts over Temasek's returns reprised in HK's main English daily

Points to relatively low capital returns on Sing Tel, SIA, Chartered, over several cycles. Problematic Shin Corp, Merrill Lynch and Barclays investments.

“Yes dear investor, there is a tooth fairy. Temasek stretches more than our imagination with claim of stunning average shareholder return,” Jake van der Kamp, published in the South China Morning Post, 17 Jul 2012

This one number stands out from all the others in the 2012 review highlights of Singapore's sovereign wealth fund. Temasek claims that it has achieved an average total shareholder return of 17 per cent since inception in 1974 or 19 per cent in US dollar terms.... Let's put it another way. If you were a private investment fund manager with this sort of record, you would have every investor in the world getting down on his knees to you and bowing every time you showed your face in public. You would be venerated as a deity. The world would be at your doorstep asking you to manage its money.... It was only 10 years ago that Temasek started making investments outside of Singapore and by far the bulk of its portfolio is still in Singapore. We shall thus compare its 20-year record with the performance of the Singapore stock market. I have made this a 20-year comparison as I cannot immediately lay my hands on index data back to 1974.... The chart shows you the result. Temasek claims a 15 per cent total shareholder return over the past 20 years. Assuming we started with S\$100 in 1992, the Temasek gain would now stand at about S\$1,600. The Singapore market gives you only S\$260.



Of course, you can say that Temasek, being government, had its choice of the juiciest plums on the Singapore market and that is why it outperformed.... It seems, however, to have picked the overripe ones. Going by a piece of recent research from Christopher Balding of the HSBC Business School in Shenzhen, the average annualised earnings per share growth of Temasek's largest holding, Singapore Telecom, was -2 per cent between 1990 and 2010. Another great sluggard was Singapore Airlines with -1 per cent. Temasek owns 56 per cent of that one.... And then you get that byword for loss, Chartered Semiconductor, Singapore's foray into the wafer fab business. Temasek finally rid itself of this deadweight but its loss in chasing yesterday's technologies tomorrow was likely in the billions... We therefore turn to the foreign forays, and one of the first names that comes up here is Shin Corporation, which was affiliated with Thai prime minister Thaksin Shinawatra, who then lost his job, to Temasek's embarrassment... Also timed injudiciously were investments in Merrill Lynch and Barclays Bank. The timing of the exits from these acquisitions was equally injudicious. I cannot quantify the losses, but informed opinion generally agrees the figure ran into the billions... And if Temasek's touted total shareholder return is much, much higher than the overall Singapore market's, it exceeds that of foreign markets by an even wider margin. If it's a stretch to get to 17 per cent in Singapore investments since 1974, we are looking at new properties of the elastic band to see it in markets abroad... So let's just make it simple. I simply don't believe it and I can't imagine that any investment professional does. Prove it, fellas.

Source: Excerpts from SCMP.com

On budget accounting – Balding & Jeyaretnam

<p>What reason for a country to incur large & sustained public surpluses while increasing total public indebtedness to such high levels? To develop the local debt market?</p> <p>Budget accounting is “non-standard,” understating constant and large surpluses for many years; by excluding capital receipts?</p>	<p>Two questions</p> <p>Q1. Why the high public debt? Balding notes that “Singapore is the only country to have managed to average a surplus fiscal position and increase its overall indebtedness to nearly 100% of GDP. All other countries with high levels of debt such as the United States and western Europe, have long term public finance deficits which adds to total public indebtedness. There appears no valid reason for a country to incur large and sustained public surpluses and increase their total public indebtedness to such high levels.” (Balding, 2012a). He also details that “Since 1974, Singaporean debt has gone up by \$326 billion SGD. Since 1974, Singapore has run operational surpluses of \$279 billion according to the IMF.” (Balding 2012b).</p> <p>Q2. Budget accounting eschews IMF framework? Singapore opposition party leader and economist Kenneth Jeyaretnam notes “... The budget presented to us by this government is a model for opacity. Overall it allows only a very limited picture of the government’s true financial position. Specifically the budget as presented does not follow globally accepted and followed standards as set out by IMF standards for data dissemination... The data on general government surpluses supplied by you between 1980 and 2010 add up to approximately \$340 billion. However the IMF’s own figures for Singapore’s general government surplus (which start from 1990), when added to the MOF figures for 1980 to 1989, give a total of some \$429 billion. Yet at the Statements of Assets and Liabilities (SAL) balance sheet date of 31st March 2011 the total net assets of the government are shown as only \$326 billion defined on the basis above. Do the surpluses include capital gains? If they do not, then the net assets total seems much too low given the rise in global equity markets and falls in interest rates since 1980. I have assumed they include all investment income. Please clarify that is the case.” Source: Jeyaretnam (2012).</p>	<p>.. and some answers</p> <ul style="list-style-type: none"> • Singapore reports a “basic balance” of recurring items: revenue from taxation and civil service expenditures only plus investment dividends. This excludes capital receipts such as from land sales and vehicle COEs – clearly, these are significant contributors. • Singapore’s more standardized reporting to the ADB and IMF are somewhat delayed. At present data up to 2009 is available in their formats. • Singapore has enjoyed constant large budget surpluses for many years, with the exception of one year, some 20 years ago. Singapore is self-funding. • Singapore’s debt is not issued for funding needs, but to develop the local capital market. The government seeks to build a debt market and a yield curve. • Singapore’s non-standard accounting method means that its debt-to-GDP ratio is not comparable with other countries. <p>Source: Khor Reports interviews with senior economists, Singapore, July 2012.</p> <p>Our observations Singapore’s multi-year fiscal surpluses place it in a strong self-funding position with big reserves and deep-pocketed SWFs. Few doubt the honesty of Singapore’s administrators. Yet, there is an undeniable opacity over public finances. This has lead some bloggers and commentators to believe that various investment misadventures are being covered up. Others reckon that surpluses are downplayed, to dampen public demands for more comprehensive welfare programs. Singapore society appears to be at a stage where greater transparency and accountability are in demand. Should the people of Singapore have the right to full information on public finances? If the budget accounting is only partial, how can it be impartially assessed? For the Temasek and GIC portfolios, information on sub-period and sub-asset class returns would be important. The extent and the manner in which these questions are to be addressed could have important political economy ramifications.</p>
---	---	--

BACKGROUND – excerpts from Temasek’s reports

Temasek’s key stats & info, 2012

As at 31 March 2012, S\$198b net portfolio value, comprising mostly equities with exposure balanced between mature economies and growth regions.

Post-2002* investments generate higher 18% returns vs 11% for older holdings

*Ho Ching joined Temasek in 2002

YEAR IN REVIEW

(as at 31 March)

Our portfolio remained resilient in a volatile year. We continued to build our people and capabilities as an investor and shareholder, as an institution, and as a steward.

Portfolio Value

Our portfolio grew by S\$121 billion since March 2002.

S\$198b

Portfolio value

Portfolio Value (S\$b)



Total Shareholder Return

Three-year annualised compounded return to our shareholder was 15%.

1.50%

One-year return

Rolling S\$ Total Shareholder Return (%)



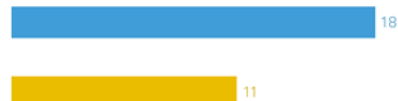
Returns to Temasek

Post-2002 investments contributed significantly to our total returns.

18%

Returns on post-2002 investments

10-year Annualised S\$ Returns to Temasek (%)



● Investments made after 31 March 2002
● Investments held as at 31 March 2002

Source: Excerpts from <http://www.temasekreview.com.sg/overview/yearinreview.aspx>

Global Exposure¹

42%

Asia ex-Singapore

30%

Singapore

25%

Australia & New Zealand, North America & Europe

3%

Latin America, Africa, Central Asia & the Middle East

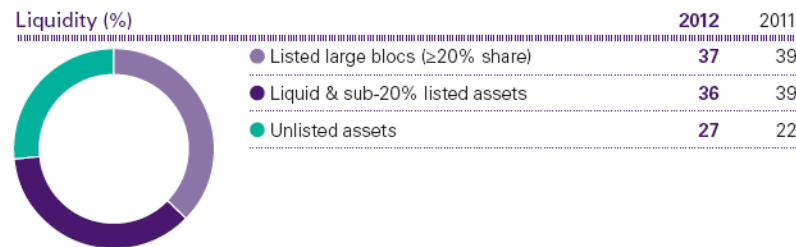
¹ Distribution based on underlying assets.

**31% in FI,
24% in TMT,
21% in
transport &
industrials,
12% in life
sciences,
consumer &
RE, 6% in
energy &
resources,
6% in others**

**37% in listed
large blocs
(over 20%)
plus 27% in
unlisted
assets**

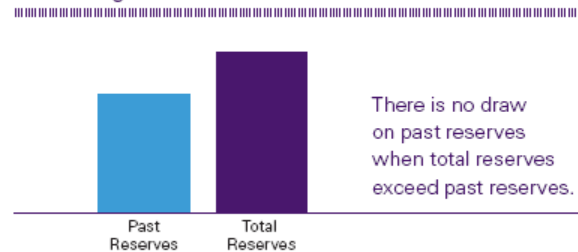
**65% in
S\$ assets**

**No draw on
past
reserves**



² Distribution based on currency of denomination.

Protecting Past Reserves



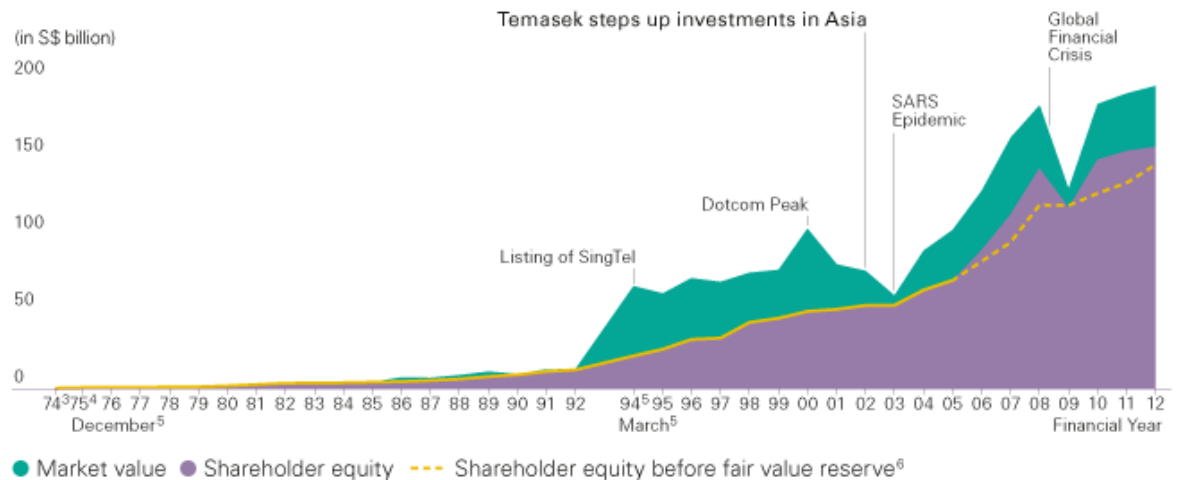
Source: Excerpts from http://www.temasekreview.com.sg/documents/TR2012_Eng.pdf

**Temasek
started with
35
companies,
mostly start-
ups with
S\$354
million
portfolio
value in
1974**

- Temasek was incorporated in 1974 with an initial portfolio valued at S\$354 million.
- Comprising 35 companies and other investments, these were mostly startups¹ ranging from a bank to a sugar refiner. Companies such as Singapore Airlines and DBS Bank have since grown to become international and regional brands, while others such as NatSteel² have been divested.
- In the 1990s, four statutory entities, SingTel, PSA, Singapore Power and MediaCorp, were corporatised and acquired by Temasek. This was part of the policy intent by the Singapore Government to devolve itself from the provision of commercial services, or to further liberalise the market. Some, like port operator PSA and telecommunications provider SingTel, have transformed into global and regional players. Others such as Singapore Power have been restructured into several operating businesses, including three power generation companies which were sold a decade later in the late 2000s.
- From a portfolio of S\$77 billion in March 2002, Temasek began actively investing in Asia and beyond. The portfolio has grown to a record S\$198 billion in March 2012, with a net cash position.

In the 1990s, 4 statutory entities, SingTel, PSA, Singapore Power and MediaCorp, were corporatised and acquired by Temasek.

Temasek Portfolio Value since Inception



1. See the list of companies in the initial portfolio [here](#).
2. Formed to produce iron and steel in Singapore, NatSteel Ltd (formerly known as National Iron & Steel Mills Ltd) was first divested in 1986. Temasek reinvested in NatSteel in 1998 in support of their investment in Brazil. Temasek divested Natsteel in 2002 when NatSteel initiated a sale process.
3. Incorporation of Temasek on 25 June 1974.
4. Financial year 75 began on 25 June 1974 and ended 31 December 1975.
5. Financial year-end was changed from 31 December before 1993 to 31 March from 1994 onwards.
6. FRS39 *Financial Instruments: Recognition and Measurement*, introduced during year ended 31 March 2006, requires available-for-sale financial assets to be measured at fair value.

Source: Excerpts from http://www.temasekreview.com.sg/portfolio/portfolio_value_since_inception.aspx

Temasek Portfolio at Inception

Companies in bold are still within the Temasek portfolio, directly or indirectly, while the rest have been divested or liquidated.

Acma Electrical Industries Ltd
 Cerebos Singapore Pte Ltd
 Chemical Industries (F.E.) Ltd
Development Bank of Singapore Ltd1
 Instant Asia Cultural Shows Pte Ltd
 Insurance Corporation of Singapore Ltd
 International Development and Construction Corporation
 Intraco Ltd
Jurong Bird Park Pte Ltd2
Jurong Holdings Pte Ltd3
Jurong Shipbuilders Pte Ltd3
Jurong Shipyard Pte Ltd3
Keppel Shipyard Pte Ltd4
 Metrawood Pte Ltd
 Ming Court Hotel Ltd
 Mitsubishi Singapore Heavy Industries Pte Ltd
 National Engineering Services Pte Ltd
 National Grain Elevator Ltd
 National Iron & Steel Mills Ltd
Neptune Orient Lines Ltd
Primary Industries Enterprises Pte Ltd5
Sembawang Holdings Pte Ltd3
Singapore Airlines Ltd
Singapore Airport Duty-Free Emporium Pte Ltd6
 Singapore Cable Car Pte Ltd
 Singapore General Aviation Service Company Pte Ltd

Singapore National Printers Pte Ltd
 Singapore Offshore Petroleum Services Pte Ltd
 Singapore Textiles Industries Ltd
 Singapore Treasury Building Pte Ltd
Singapore Zoological Gardens²
 Singmanex Pte Ltd
 Sugar Industry of Singapore Ltd
 United Industrial Corporation Ltd
 United Vegetable Oil Pte Ltd

¹Now part of DBS Group Holdings Ltd.
²Now part of Wildlife Reserves Singapore Pte Ltd.
³Now part of Sembcorp Industries Ltd.
⁴Now part of Keppel Corporation Limited.
⁵Now part of SATS Ltd., a catering and airport services company.
⁶Now jointly owned by Singapore Airlines Limited and SATS Ltd.

Source: Excerpts from http://www.temasekreview.com.sg/portfolio/initial_portfolio.aspx







Since 2002, a shift to emerging Asia from Singapore focus















Portfolio allocation approx. 33:37:30 in Singapore, Asia and ROW in recent years
















- Temasek was formed in 1974 to manage investments commercially, including the possibility of investing overseas.
- In the early years, Temasek and our portfolio companies grew in tandem with a transforming Singapore.
- Over the last 10 years, we actively extended our investment scope to grow with an emerging Asia, much like a reprise of our growth with Singapore, except on a much larger canvas of some four billion people.
- Four themes guide our investments:
 - Transforming Economies
 - Growing Middle Income Populations
 - Deepening Comparative Advantages
 - Emerging Champions
- Our portfolio balance is now approximately 70:30 between Asia and other regions. Our underlying exposure to Singapore has been about one third over the last five years, compared to a predominantly Singapore portfolio before 2002. Part of this is due to the success of our portfolio companies in regionalising or globalising their own businesses, such as SingTel in Asia, and PSA in Asia and Europe.
- New investments made since 2002, when we stepped up our exposure in Asia, delivered annualised returns of over 18% to Temasek, while investments held as at March 2002 delivered 11% annualised over the last 10 years.

Source: Excerpts from http://www.temasekreview.com.sg/investment/investment_framework.aspx

Major investments

				Market Capitalisation or Shareholder Equity ¹	
Financial Services		Shareholding (%) as at 31 Mar 2012	Currency	2012	2011
	Bank of China Limited	2*	HKD'm	980,633	1,135,544
	China Construction Bank Corporation	8*	HKD'm	1,499,675	1,809,283
	DBS Group Holdings Ltd	30	SGD'm	34,228	33,762
	PT Bank Danamon Indonesia Tbk	67*	IDR'b	44,089	55,137
	Standard Chartered PLC	18	GBP'm	37,190	37,967
	ICICI Bank Limited	2*	INR'm	1,026,196	1,285,608

		Market Capitalisation or Shareholder Equity ¹			
		Shareholding (%) as at 31 Mar 2012	Currency	2012	2011
Telecommunications, Media & Technology					
	Shin Corporation Public Company Limited	42*	THB'm	189,179	97,633
	Singapore Technologies Telemedia Pte Ltd	100	SGD'm	3,548	1,954
	STATS ChipPAC Ltd.	84	SGD'm	1,068	1,586
	Bharti Airtel Limited	5	INR'm	1,283,209	1,357,617
	MediaCorp Pte Ltd	100	SGD'm	748	564
	Singapore Telecommunications Limited	54	SGD'm	50,218	48,126
Transportation & Industrials					
	Keppel Corporation Limited	21	SGD'm	19,698	19,864
	Neptune Orient Lines Limited	66	SGD'm	3,658	5,011
	PSA International Pte Ltd	100	SGD'm	8,553	8,534
	Sembcorp Industries Ltd	49	SGD'm	9,436	9,318
	Singapore Technologies Engineering Ltd	51	SGD'm	9,968	9,942
	Singapore Airlines Limited	56	SGD'm	12,674	16,346
	Singapore Power Limited	100	SGD'm	8,336	7,843
	SMRT Corporation Ltd	54	SGD'm	2,638	2,871

		Market Capitalisation or Shareholder Equity ¹			
		Shareholding (%) as at 31 Mar 2012	Currency	2012	2011
Life Sciences, Consumer & Real Estate					
	Olam International Limited	16	SGD'm	5,764	5,965
	CapitaLand Limited	40	SGD'm	13,260	14,087
	Celltrion, Inc.	10	KRW'b	4,261	4,042
	Li & Fung Limited	3	HKD'm	144,932	160,893
	M+S Pte. Ltd.	40	SGD'm	NM ⁶	NA
	Pulau Indah Ventures Sdn Bhd	50	MYR'm	NM ⁶	NA
	Mapletree Investments Pte Ltd	100	SGD'm	6,525	5,825
	SATS Ltd.	43	SGD'm	2,760	2,780
	Wildlife Reserves Singapore Pte Ltd	88	SGD'm	176	162
Energy & Resources					
	The Mosaic Company	5	USD'm	23,523	35,162
	Chesapeake Energy Corporation	-7	USD'm	15,339	22,046
	Clean Energy Fuels Corp.	0 ⁸	USD'm	1,837	1,151
	FTS International, Inc.	40	USD'm	3,733	544
	Inmet Mining Corporation	11	CAD'm	3,912	4,195
	MEG Energy Corp.	6	CAD'm	7,461	9,385

Source: Excerpts from http://www.temasekreview.com.sg/portfolio/major_investment.aspx

2012: 42% allocation to Asia ex-Singapore

Since 2002, S\$139b investments and S\$87b divestments, S\$4b net investments

- Over the last 10 years, Temasek actively extended its portfolio to the rest of Asia, from one which was predominantly in Singapore.
- We invested S\$139 billion and divested S\$87 billion over the same period.
- As at 31 March 2012, our exposure to Asia ex-Singapore was 42%, tapping on the dynamic transformation of the region, while Singapore exposure remained a steady one third of our portfolio.
- Last financial year, we invested S\$22 billion and divested S\$15 billion, resulting in net new investments of S\$7 billion, compared to around S\$4 billion in each of the previous two years.
- Our investments in the major Chinese banks are long term proxies to the broader growing Chinese economy and its expanding middle income population.
- In November last year, we increased our H-share¹ stake in China Construction Bank (CCB)² to 9.4%. Post March 2012, we invested in Industrial and Commercial Bank of China (ICBC)³ and rebalanced our stakes in CCB⁴ and Bank of China (BOC)⁵.
- Other investments in China included S\$190 million in Citic Securities, the largest securities firm in China. In April 2012, we invested in Kunlun Energy, a Hong Kong listed subsidiary of

<p>in energy and resources</p> <p>Key recent investments in Chinese banks, Citic Securities, Kunlun Energy, Godrej Consumer Products, Iskandar Malaysia JV with Khazanah, Olam, Tiger Airways, Inmet Mining, Mosaic, ISPON, Banco del Bajio, Tana Africa Capital, Stanchart, Li & Fung etc.</p>	<p>PetroChina involved in the crude oil and natural gas sector in China.</p> <ul style="list-style-type: none"> • Elsewhere in Asia during the year, we invested S\$180 million in Godrej Consumer Products, a leading consumer company in India, and S\$70 million in exchangeable bonds issued by Hoang Anh Gia Lai Corporation in Vietnam. • In June 2011, we partnered with Khazanah Nasional Berhad to form a 40:60 joint venture, M+S Pte Ltd, to develop landmark projects in Singapore's Marina South and Ophir-Rochor. Separately, Pulau Indah Ventures Sdn Bhd, a 50:50 joint venture between Temasek and Khazanah, will develop two wellness-related projects in Iskandar Malaysia, Johor. • In Singapore, we invested an additional S\$280 million in Olam, a global supply chain manager and processor of agricultural products and food ingredients, and participated in the rights issue of Tiger Airways. • We made net investments of S\$4 billion in the energy and resources sector last year. This helped to increase our exposure to North America from 5% to 7%. • In the energy sector, we invested in convertible notes of Clean Energy Fuels, the largest alternative transportation fuel provider in North America, in August 2011. This was followed in May 2012 with an investment of almost S\$300 million in Cheniere Energy, the first USA company with approval to export natural gas to the USA's Free Trade Agreement partners such as Singapore and Korea. • We converted over S\$600 million of previously issued subscription receipts of Inmet Mining into common shares in May 2011. Another resources investment was S\$1.3 billion in The Mosaic Company, a leading potash and phosphate producer with assets in the USA and Canada. • Investments in biotechnologies included S\$60 million in Portola Pharmaceuticals, a late-stage drug development company. • During the year ended March 2012, new investments in Latin America included a S\$126 million commitment to Integradora de Servicios Petroleros Oro Negro, an offshore oil and gas services company in Mexico, as well as S\$20 million in Hidrovias do Brasil, a fluvial navigation and port company in Brazil and Uruguay. We added another S\$20 million to our earlier investment in Amyris Biotechnologies. In May 2012, we made a S\$160 million investment in the eighth largest bank in Mexico, Banco del Bajio. • Our partnership with the Oppenheimer family to set up Tana Africa Capital, extended our interest in the consumer and agriculture sectors to Africa. • Last year, key divestments included Avago Technologies, PT Chandra Asri Petrochemical, Hutchison Port Holdings Trust, ICICI Bank, Invida Group and Kaisa Group Holding. • We issued two Zero Coupon Temasek Exchangeable Bonds. One is a S\$790 million issue due October 2014, exchangeable for ordinary shares of Standard Chartered PLC, and the other a S\$500 million issue due December 2013, exchangeable for ordinary shares of Li & Fung Limited. • Over the last few years, we methodically laid the ground to extend our exposure beyond equities. As at end March 2012, we had a S\$600 million gross notional exposure to put and call options that reflected our longer term interest in their underlying equities. We also added some S\$1.3 billion in funds which focused on credit opportunities. We do not engage in any naked short positions as a matter of policy. <p>Source: Excerpts from http://www.temasekreview.com.sg/investment/investment_highlights.aspx</p>
---	--

BACKGROUND – excerpts from GIC’s reports

GIC’s key stats & info, 2012

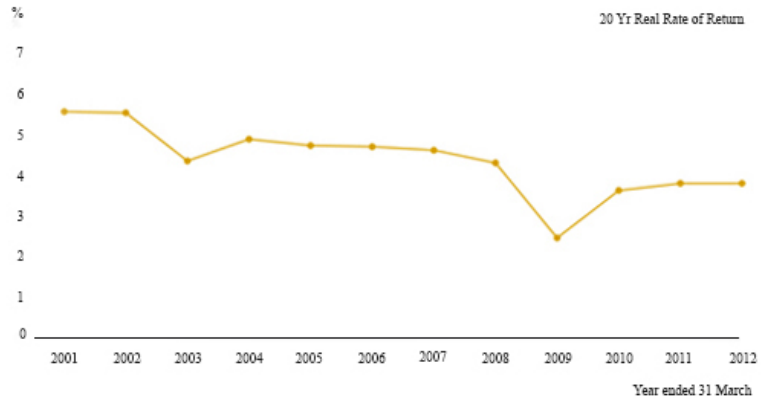
Portfolio value: not stated in GIC’s website and reports, but estimated at S\$387 billion#

Asset allocation, 45% public equities, 17% fixed income, 27% alternatives, 11% cash & others

Geographical allocation, 42% Americas, 26% Europe, 29% Asia, 3% Australasia

The Government of Singapore has an official balance sheet as of March 31, 2011 listing \$705 billion SGD of assets and of that \$125 billion SGD is in cash. Temasek at the same time lists assets of \$193 billion SGD. Given the government cash holdings and the value of Temasek, this would provide a GIC valuation of \$387 billion SGD. This is close to other outside estimates of GIC (Source: “What We Know So Far,” 2 July 2012, Baldings World website).

Annualised Rolling 20-Year Real Rate of Return of the Government's Portfolio



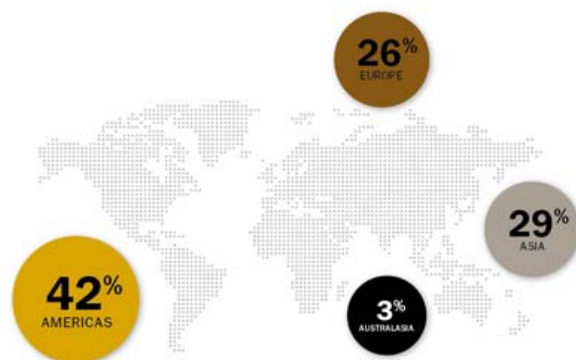
Asset Mix of the Government's Portfolio

		31 MARCH 2012		31 MARCH 2011	
		%	%	%	%
PUBLIC EQUITIES	Developed Markets	30	45	34	49
	Emerging Markets	15		15	
FIXED INCOME	Nominal Bonds	15	17	20	22
	Inflation-Linked Bonds	2		2	
ALTERNATIVES	Real Estate	10	27	10	26
	Private Equity & Infrastructure	11		10	
	Absolute Return Strategies	3		3	
	Natural Resources	3		3	
CASH & OTHERS		11	11	3	3
TOTAL		100	100	100	100

Geographical Distribution of the Government's Portfolio

		31 MARCH 2012		31 MARCH 2011	
		%	%	%	%
AMERICAS	United States	33	42	33	42
	Latin America	4		4	
	Others	5		5	
EUROPE	United Kingdom	9	26	9	28
	Eurozone	11		12	
	Others	6		7	
ASIA	Japan	12	29	11	27
	North Asia ¹	13		12	
	Others	4		4	
AUSTRALASIA		3	3	3	3
TOTAL		100	100	100	100

Geographical Distribution of the Government's Portfolio



- USA: Franklin Centre, Citigroup, The Blackstone Group, Kohlberg Kravis Roberts & Co. (KKR)
- United Kingdom: Bluewater Shopping Centre, Kelda Group Limited; France: Westin Paris; Germany: Uptown Munich Tower
- South Korea: Seoul Finance Centre; Japan: Shiodome City Centre, China: China Industrial Bank Co Ltd, Li Ning, China International Capital Corporation (CICC), Infrastructure Development

Finance Company (IDFC), India: Edelweiss Capital Ltd

- Australia: Queen Victoria Building, Chifley Tower

Source: Excerpts from <http://www.gic.com.sg/quickfacts/> and <http://www.gic.com.sg/global-reach/our-investments>

GIC established in 1981 to manage Singapore's long term reserves – an unconventional move at the time

GIC an early investor in real estate and EM



"GIC's ability to respond quickly and effectively to both the dangers and opportunities generated by the changes in the world economy and financial markets depends on the quality of GIC's leadership, the soundness of its investment and innovation processes and the dedication of its staff."

Lee Kuan Yew

"There is no real secret about the way in which most nations and individuals grow rich. They must save a good part of their income wisely and profitably invested. The more you save and the more wisely you invest, the faster you get rich."

Dr Goh Keng Swee

Source: Excerpts from <http://www.gic.com.sg/about/overview/the-gic-journey>

*Address by Mr Lee Kuan Yew, Minister Mentor, Singapore and Chairman, GIC, at GIC's 30th Anniversary Dinner on 9 May 11
09 May 2011*

*Distinguished Guests
Ladies and Gentlemen,*

I am delighted to welcome the current and former members of the Board, friends in public service, GIC's business partners, together with staff of GIC to this dinner to celebrate GIC's 30th Anniversary. Thank you all for your presence tonight and your contributions to GIC's success over the years.

The establishment of GIC in 1981 reflected the high priority accorded by the Singapore government, especially the late Dr Goh Keng Swee who was then Deputy Prime Minister, to manage Singapore's long term reserves more rationally, strategically and professionally.

As we celebrate GIC's 30th anniversary, we should remember why GIC is vital to Singapore's national interest. First, Singapore is highly exposed to the vagaries of the global economy. Our national reserves are a buffer or shock absorber for Singapore in downturns like that in 2009. It helped us to keep jobs with the job credit scheme. Second, a strong national balance sheet fosters investor confidence and hence enhances the stability of the Singapore dollar. Third, income from our reserves supplement government revenues. To sustain our policy of building the reserves, we need a capable reserve manager like GIC to invest the funds with a long term orientation and garner good returns.

The vision to create GIC was original, bold and forward looking. When GIC was established, the idea that a country should manage its reserves for long term returns was unconventional. Some even considered it irresponsible to invest our foreign reserves in risky assets like equities. Today, however, many countries have established sovereign wealth funds of their own.

GIC recognized early that talent would be the key to success. One of the most important reasons for the creation of GIC was to enable the hiring, developing, and retaining of the best

talent. We have been successful. Another reason was also to ensure that Singapore was able to develop the essential capability of managing our reserves ourselves so that we could better control our long term destiny. Meritocracy and excellence are core tenets of GIC's culture today.

We have also been willing to embark on new strategies and take calculated risks in order to attain good returns. GIC was an early investor in real estate. We were also early movers in Emerging Markets, particularly Singapore's ASEAN neighbours and China.

The results speak for themselves. Since inception, GIC has preserved and enhanced the purchasing power of Singapore's reserves, outpacing global inflation by a comfortable margin. Compared with the popular high-return asset class of equities, which returned 10.2% per annum in nominal USD terms since 1981, the GIC portfolio made comparable returns with less risk.....

Source: Excerpts from <http://www.gic.com.sg/newsroom/news/article/09-May-2011-3>

BACKGROUND

Lee Family roles in Singapore's SWFs

The Lee Kuan Yew (LKY) Family



Photo source: www.sammyboy.com (origin and date of photo not indicated)

- Patriarch **Lee Kuan Yew** (LKY, and also known as Harry Lee) was the founding and long-serving Prime Minister (PM) of Singapore. He ascended to a senior cabinet role as Minister Mentor for many years, after 'retiring' as PM. LKY's late wife, the highly regarded **Kwa Geok Choo**, was co-founder and partner of one of the largest local law firms, Lee and Lee (background information here: <http://www.leenlee.com.sg/en/about-us/brief-history.html>).
- **Lee Hsien Loong** (LHL), LKY's eldest son, the current PM, was a young Brigadier-General. His (second) wife, **Ho Ching** is the CEO of Temasek Holdings, one of the Singapore's two key sovereign wealth funds (LKY is senior advisor to the other, GIC, and LHL is its Chairman). She started her career as an engineer with the Singapore Ministry of Defence. In 1987, she joined Singapore Technologies, a key government-linked corporation (GLC) as Deputy Director of Engineering, and became its President and Chief Executive Officer before retiring in 2001. She joined the Board of Temasek Holdings in January 2002, became Executive Director in May 2002 and CEO in January 2004.
- **Lee Hsien Yang**, younger son of LKY, was the former CEO of Singapore Telecommunications[^], the oldest among the significantly state-owned telecom sector and one of the largest companies on the Singapore bourse by market capitalization. Its public listing apparently accounted for much of Temasek Holdings returns. At present he is CEO of Fraser & Neave[^] and the Civil Aviation Authority of Singapore. His wife, **Lim Suet Fern**, is a well-known senior corporate lawyer. ([^]SingTel and F&N are companies in the investment stable of Temasek Holdings).
- **Lee Wei Ling**, daughter of LKY, is Director of the National Neuroscience Institute of Singapore.

Sources: Various, including several corporate and alumni websites and Wikipedia.

REFERENCES

Balding, Christopher (2012a) "A Brief Research Note on Temasek Holdings and Singapore: Mr. Madoff Goes to Singapore," 8 February 2012, HSBC Business School, Peking University Graduate School.

Balding, Christopher (2012b) "What We Know So Far," 2 July 2012, Baldings World website, weblink: <http://www.baldingsworld.com/>

GIC (2012), "Report on the Management of the Government's Port folio for the Year 2011/12," accessed 7 Aug 2012, weblink: <http://www.gic.com.sg/newsroom/reports/2011-2012/>.

Jeyaretnam, Kenneth (2012), "Singapore budget not set out according to the IMF framework? An Open Letter to the Minister for Finance from Kenneth Jeyaretnam," Published by The Online Citizen on 2 June 2012.

Khor Reports (2012). Interviews with senior economists, Singapore, July 2012.

Singapore (2012), Ministry of Finance website, accessed 7 Aug 2012, weblink: http://app.mof.gov.sg/reserves_sectionone.aspx

Temasek Holdings (2012), "Temasek Review 2012," published 27 June 2012, weblink: <http://www.temasekreview.com.sg/overview/yearinreview.aspx>.

Various news articles. As indicated.

Various websites. As indicated.

For queries about **Political-Economy Briefings** from a SE Asian perspective, contact: **Khor Reports by Ms. [Khor Yu Leng](#), Segi Enam Advisors Pte Ltd.**



khorreports@gmail.com



+60 12 6739218 / +65 93830428

This report contains information that is extracted from various sources, and should be read in conjunction with said sources. This report is prepared for general circulation. It does not have regard to the specific objectives, situation and the particular needs of any specific person or entity who may receive this report. We do not represent, warrant or guarantee the accuracy, timeliness, completeness or adequacy of the information disclosed herein and it should not be relied on as such. Under no circumstances will we be liable for any claim or loss whatsoever, be it direct, indirect, incidental, special or consequential damages caused by any reliance or use of the information disclosed herein. Public listed companies and investable instruments may be referred to in this report. The information, tools and material presented herein are provided for informational purposes only and are not to be used or considered as an offer or a solicitation to sell or an offer or solicitation to buy or subscribe for securities, investment products or other financial instruments, nor to constitute any advice or recommendation with respect to such securities, investment products or other financial instruments. You should independently evaluate particular investments and consult an independent financial adviser before making any investments or entering into any transaction in relation to any securities mentioned in this report. You may download and print extracts from the material and make copies of Khor Reports for your own personal and non-commercial use only. You are not allowed to download or print the material, or extracts from it, in a systematic or regular manner or otherwise so as to create a database in electronic or paper form comprising all or part of the material appearing on Khor Reports. You must not reproduce any part of Khor Reports or transmit it to or store it in any website or disseminate any part of the material in any other form, unless we have indicated that you may do so. If you wish to use our content other than as permitted, then you may need a license to do so. If you operate a news aggregation service that charges a subscription fee to its users, then you need to approach us to discuss licensing arrangements. If you use or reproduce material from Khor Reports, you will be required to fully acknowledge us as author of such material. **This newsletter report is NOT for public or other distribution in any jurisdiction that requires a special license for newsletters of this type, via a printing and/or publishing act. If you have received this in error, please destroy this copy.**