

**Foreign Government Investment in the United States Economy and Financial Sector**

*Temasek Holdings: A Dependable Investor in the United States*

**Testimony of Simon Claude Israel**

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**before the House Financial Services Committee --**

**Subcommittee on Domestic and International Monetary Policy, Trade and Technology;**

**Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises**

**March 5, 2008**

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Mr. Chairmen, Ranking Members, Chairman Frank, Members of the Committee:

My name is Simon Israel and I serve as an Executive Director and Member of the Board of Temasek Holdings. I thank you for the opportunity to present our views in your deliberations.

## **Overview**

Temasek Holdings is a Singapore-based investment holding company founded in 1974. Temasek has a professional management team comprising 40 percent non-Singaporeans at its senior levels, and is headquartered in Singapore, a trusted friend and partner of the United States.

Temasek is known in the global investment community as a responsible and disciplined long-term investor with a mandate to maximize sustainable shareholder value, with a strong reputation for high standards of integrity and corporate governance.

From an initial portfolio of S\$350 million in 1974 made up of various Singapore start-ups, Temasek's investment exposure has grown over the last 30 years into a globally diversified portfolio of about US\$110 billion, covering a range of industries, including financial services, transport and logistics, telecommunications and other infrastructure and engineering services. Singapore and Asia account for nearly 80 percent of Temasek's investments, while developed markets such as the United States and Europe are a long-standing and growing part of our portfolio.

## **Temasek Investments in the United States**

Temasek has multifaceted investment ties to the United States, both directly and indirectly via its portfolio companies. Temasek's US\$4.4 billion investment in Merrill Lynch last December is only the latest financial linkage we have with America. Other direct Temasek investments include start-up companies in Silicon Valley as well as investments in various private equity and hedge funds in the United States as well as investments in the public markets.

Several Temasek portfolio companies have significant U.S. operations. For example, Singapore Technologies Telemedia, a wholly owned subsidiary of Temasek, owns two thirds of Global Crossing (employing more than 2,000 people in the United States), and Keppel Corporation, which is active in network engineering and natural resource services, supplies competitively built oil rigs for American companies in the oil and gas industry. California-based American President Lines (APL) -- wholly owned by Neptune Orient Lines in which Temasek holds a two-thirds interest -- is a major container shipment firm. APL, which operates ports in three western states, is the Defense Department's second largest cargo carrier and employs more than 3,100 people in the United States. Virginia-headquartered VT Systems -- a wholly-owned subsidiary of Singapore Technologies Engineering -- is a leading supplier to the U.S. armed forces of sophisticated technology and mission critical goods. Singapore Technologies Engineering, in which Temasek has a 50 percent interest, has more than 4,000 employees in the United States.

Through our portfolio companies we have had substantial experience with the domestic review process under the Committee on Foreign Investment in the United States. Temasek closely followed the process leading to the enactment of the new Foreign Investment and National Security Act last year. We are also closely following the process of writing regulations to guide the implementation of this law and the vigorous debate in Europe and the United States with respect to Sovereign Wealth Funds.

The United States and Singapore enjoy close economic and strategic relations. Annual bilateral trade has grown 41 percent from US\$ 31.7 billion to US\$44.7 billion since the 2003 Singapore-U.S. Free Trade Agreement. Today Singapore is the US's 15<sup>th</sup> largest trading partner. Companies like Singapore Airlines are major customers of American firms such as Boeing, General Electric and many others. On the strategic front, the Singapore Armed Forces is a major operator of U.S. military equipment, like the F-15 and F-16 aircraft, and is active in operations to reconstruct Iraq and Afghanistan. As a company headquartered in a small, vulnerable country located at a strategically important crossroads of Asia, Temasek understands and fully respects that the United States must take the measures necessary to protect its national security. Temasek fully appreciates and supports the Congress's goal to maintain the right balance in protecting national security in ways that continue the traditional welcoming attitude of the United States toward foreign investment.

### **Mandate to Invest for Long Term Returns**

Let me take this opportunity to explain the history of Temasek and why we have come to operate commercially as part and parcel of our core philosophy.

“One of the tragic illusions that many countries of the Third World entertain is the notion that politicians and civil servants can successfully perform entrepreneurial functions. It is curious that, in the face of overwhelming evidence to the contrary, the belief persists.”

Dr. Goh Keng Swee,  
Singapore Deputy Prime Minister  
*The Economics of Modernisation*, May 1972

In the years immediately after independence in 1965, the Government of Singapore co-invested in new enterprises in an effort to spur economic development and job creation. As a poor, newly independent nation-state on an island about the size of Lake Tahoe, with no natural resources and a population of less than 2 million, there was no choice but to ensure that such investments were commercially viable and sustainable. This imperative was pursued by Deputy Prime Minister Dr. Goh Keng Swee, who was the architect of Singapore's industrialization and economic development.

Dr. Goh's focus on commercially viable and sustainable investments was reinforced in 1974 when the Government of Singapore established Temasek and charged it with taking over the ownership and management of some 30 of these start-up investments. The creation of Temasek thus served to separate the regulatory and policy making function of the Government from its role as a shareholder of commercial entities. Temasek was and is, expected to manage its portfolio with commercial discipline.

Many of these start-up investments transferred into Temasek have been either fully or partially divested over the years, while Temasek continued to make other new investments. In addition, as the Government of Singapore streamlined some of its functions over the years, 6 such corporatized entities were transferred to Temasek with the Government again instructing Temasek to own and manage the companies on a commercial basis. These firms have included Singapore Telecommunications, which has since been publicly listed by Temasek; the former Public Works Department (renamed CPG Corporation), which Temasek has since sold to Downer Corporation of Australia; and, several power generating companies, which Temasek has

since methodically restructured to improve their operation and competitiveness, and is in the process of divesting over the next 12-18 months.

Throughout its history, Temasek has continued to invest and divest its portfolio based on its assessment of the long term value of the businesses, as part of its mandate to create and maximize long-term returns as an active investor and shareholder of successful enterprises.

In recent years, Temasek has focused on four investment themes:

- Transforming Economies
- Thriving Middle Class
- Deepening Comparative Advantages
- Emerging Champions

Essentially, Temasek is looking to invest in emerging long term trends. These would include economies in the process of transformation either through restructuring, market liberalization or improvements in governance, as well as outstanding companies with strong management which are in the process of change.

Temasek's growth over the years has been mainly funded through a combination of the growth of its portfolio companies, and returns from its direct investment/divestment activities. Temasek funds its investment activities predominantly from dividends distributed by its portfolio companies, proceeds from its divestments, commercial borrowings, a recent bond issue, and the occasional capital injection from its shareholder, the Ministry of Finance. Temasek does not

invest the foreign exchange reserves of Singapore. It pays cash dividends regularly to its shareholder and also pays taxes in the various jurisdictions in which it operates, like any other commercial entity.

Temasek's total shareholder returns since 1974, more than 33 years ago, is more than 18 percent compounded annually. This includes the appreciation in market value of Temasek's portfolio and dividends paid to our shareholder, less any net new capital into Temasek. This record speaks clearly of Temasek's focus on commercial discipline.

### **Institutionalizing Good Governance**

Good governance is another key to the long term success of Temasek as an investor and shareholder of successful companies and investments. This is defined by our professionalism and robust internal processes, as well as the external relationships we have with our various stakeholders.

Under the Singapore Companies Act, all directors are charged with the fiduciary duty of acting in the best interest of their company and its shareholders. The eight-member Temasek board comprises mostly independent members, with independent, non-executive directors chairing the three key board committees. In addition, an 11-member Temasek International Panel of international business leaders and leading individuals provides the board and management with global perspective and advice on strategic matters. Two well-respected Americans who are familiar with market discipline are on the Panel: Mr. William J. McDonough (the vice-chairman of Merrill Lynch and the former president of the Federal Reserve Bank of

New York), and Mr. David Bonderman (the founder of leading private equity firm, Texas Pacific Group).

***With a disciplined governance and financial framework***

In addition, Temasek has in place a comprehensive framework for good governance and financial discipline. Temasek recognizes that a disciplined approach to investment and business decisions is the basis for sustaining shareholder returns over the long term. Temasek does this at two levels.

First, Temasek has a disciplined internal process, with the board delegating some level of investment authority to the management. The investment committee comprising the senior management team and other designated experienced management members will scrutinize and evaluate all investment proposals. Investment decisions within the authority limits of the investment committee will be made by the committee at a fortnightly meeting. Larger investments above this authority limit will either go to an Executive Committee of the Board or the full Board for their evaluation and approval. Minutes of their meetings and the decisions of both the investment committee and the Executive Committee are also circulated to the Board members. Where there is a conflict of interest, members will be recused from the discussion and deliberations of such meetings.

Second, Temasek recognizes the importance of disclosure as part of the discipline for financial rigor. We have of our own volition invited the continual scrutiny of our performance and investments by external, as well as knowledgeable international stakeholders through the

publication of an annual *Temasek Review*, through a credit rating by reputable international rating agencies and by issuing an international bond.

Audited annually by independent global accountancy firms, Temasek has published data on its financial performance in its annual *Temasek Review* since 2004. The report includes an overview of the firm's governance process, portfolio holdings by geography and sectors, significant investments and divestments made during the financial year, highlights of key developments and an indication of the firm's outlook and future directions. Temasek also maintains a website, [www.temasek.com.sg](http://www.temasek.com.sg), which contains access to current and previous annual reviews and up-to-date information of major developments. Temasek provides the full audited financial reports to its shareholder annually.

In addition, Temasek has been credit-rated by both Standard & Poor's and Moody's at the highest grade of AAA/Aaa respectively since 2005. It is one of the few AAA/Aaa rated firms in Asia. Apart from annual engagements with these rating agencies annually to review our performance results, every major Temasek transaction is scrutinized by these rating agencies. This process ensures that the firm's financial discipline and credit robustness remain intact.

Temasek also issued its maiden bond of US\$1.75 billion in 2005, with detailed audited financial disclosures in compliance with US Securities and Exchange Commission regulations. This has served to include the global community of sophisticated investors as our interested stakeholders.

These voluntary undertakings for disciplined disclosures are part and parcel of Temasek's framework for institutionalizing sound financial discipline, and have contributed to Temasek's reputation as a well-governed, financially disciplined and transparent firm with full accountability.

***With our portfolio companies***

Temasek depends on the success of its portfolio companies to achieve sustainable long term returns. Temasek does not involve itself in the day to day business or operational decisions of its portfolio companies. For example, Temasek does not interfere with what aircraft Singapore Airlines should buy or which routes it should fly. Instead, Temasek emphasizes sound corporate governance with competent independent boards and professional management as the drivers for the long term success of outstanding companies. Temasek holds the respective board and management accountable for the performance of its portfolio companies, and exercises its full rights as a shareholder. Temasek contributes by referring effective candidates for Boards and key management positions for the consideration of the respective Boards and companies. Temasek also helps its portfolio companies in areas of good governance and management development in terms of executive programs and workshops on best practices and global trends.

As a shareholder, Temasek conducts its relations with its portfolio companies in accordance with best practices in corporate governance. As a principle, Temasek does not appoint nominees to fill board and chief executive positions, even in wholly-owned companies. Instead, by drawing from its international network of business contacts, Temasek prepares a shortlist of candidates for the portfolio company's board's consideration. The board may include

these candidates in its final search list, but makes its own independent decision for board members and/or chief executives. As any other shareholder, Temasek retains its right to vote on all corporate matters including board appointments.

### ***With the Government and the Elected President***

The relationship between Temasek and our sole shareholder, the Ministry of Finance, is similar to the relationship between Temasek and its portfolio companies. Temasek does not discuss its investment and divestment activities with the Government. The Constitution of Singapore reinforces the independence of the board and management of Temasek from financially imprudent interference by the Government.

To ensure fiscal discipline, the Singapore Constitution limits how the government of the day can use accumulated national reserves. It also empowers the President -- elected directly by Singaporeans every six years - to oversee the management of national reserves. (The President of Singapore plays a very different role in Singapore's system than the President of the United States plays in the US system. The President of Singapore is a non-Executive and sits apart from the Government and cannot be a member of any political party or engage in any commercial enterprise.)

The Constitution limits the Government to using surpluses accumulated during its current term of office. Each election heralds a new term of government, and any surpluses at the change of government are locked up as past reserves. To draw on past reserves accumulated by

preceding administrations, approval must be sought from the President. This aims to prevent a profligate government from wasting away past reserves.

Similarly, Temasek is one of the important state-owned companies designated under the Singapore Constitution to have the additional oversight by the President of Singapore. This is due to the significant pool of capital which Temasek has successfully grown and accumulated since its inception. Hence, while the Ministry of Finance is Temasek's shareholder, the President must also concur with the appointment, renewal and removal of Temasek's directors and chief executive. This provides the Board and Management another layer of insulation from undue Government influence.

### **Corporate Citizenship**

As a responsible long term investor, Temasek is active in contributing to the larger community in various ways. In particular, Temasek believes in supporting efforts to build people and to build bridges among peoples. It regularly contributes to various philanthropic efforts, particularly in Asia, including in education, research, and cross-border exchange programs, to build resilience and foster self reliance.

As part of its long term commitment to the wider community, it has also been putting aside a share of its economic profit since 2003, and formalized its commitment by launching the Temasek Trust with an initial endowment of S\$500 million (US\$350 million). In turn, the Trust has supported various non-profit philanthropic organizations. Noteworthy among these is the Temasek Foundation which has a mandate to fund social investments to help build up the

capabilities and capacities of people around Asia, build understanding, friendship and trust between the diverse people of the world, build outstanding institutions by promoting good governance and ethics, and to rebuild lives after natural disasters such as the tsunami of December 2006.

Among Temasek's various longstanding initiatives, the Temasek LifeSciences Laboratory has been closely involved in developing low-cost, easy to use diagnostic kits for identifying bird flu in emerging countries, particularly in Asia. This is part of our community support in the event of a major pandemic, where there is a need to have kits which do not require sophisticated logistics such as refrigeration, and village midwives can be quickly trained to provide frontline diagnosis through simple to use kits.

At the other end of the spectrum, Temasek has sponsored the setting up of the Wealth Management Institute, which has helped train and develop the next generation of financial talents. This effort included scholarships for professionals, students, bankers and regulators from around the world.

In addition, Temasek operates on a firm philosophy of not just benefiting from our investments, but also contributing to the larger community through our investments. For instance, Temasek has been an active supporter of microfinance, in providing microcredit through simple and convenient ways to service the under-served lower income groups in Asia. Successful programs targeting micro- and small-scale enterprises as well as self-employed individuals have been rolled out in Indonesia (~730 branches) and India (~620 branches), and is

currently in a pilot phase in Pakistan (~15 branches). Many of these enterprises and individuals have never been served by the formal banking sector before. The presumption is that such credit access helps lower income earners improve their lives, and thus help contribute towards a stable and growing middle class. Such successful initiatives also help create viable jobs both within the banking sector as well as in the larger communities.

## **Summary**

Temasek's course was set over thirty years ago when Temasek was incorporated as a commercial company to hold and manage its assets and to invest commercially. As Temasek grows and increasingly diversifies its global portfolio, it is mindful that its success has been rooted in the commercial principles and strong governance which have served it well. It is committed to operate as a trusted and thoughtful business partner, and a reliable long term shareholder and careful investor with a strong reputation and track record for integrity and good governance.