TEMASEK'S CEO Ho Ching (right) and executive director Simon Israel.

Temasek's future leadership needs clarity

The Singapore investment agency has been reluctant to reveal why it parted ways with CEO-in-waiting Charles Goodyear. While major differences in opinion appear mostly to blame, Temasek must quickly clarify who its next leader will be and what it expects that person to do. Chris Wright reports.

Back in early July, Charles 'Chip' Goodyear was enthused about his pending appointment as CEO of Singapore investment arm, Temasek Holdings.

The American had been appointed to the sovereign wealth fund's board on February 1 and made CEO-designate on March 1. While it was still three months until he would take over on October 1, those who spoke with the former BHP Billiton chief at the time say he had already met at least half of the major Temasek-held companies.

"There was nothing to suggest anything was coming," says one.

On the afternoon of a July 21 board meeting, something did. A press release on that day announced that the board and Goodyear had "concluded and accepted that there are differences regarding certain strategic issues that could not be resolved" and terminated the leadership transition. Ho Ching, Temasek's CEO since January 2004, would not step down after all.

That was about as much clarity as Temasek was willing to offer. *Asiamoney* asked Ho directly about these strategic differences at the Temasek results briefing on September 17, asking whether she could name a single example of something the fund will now not be doing that Goodyear had wanted to.

"I can't think of anything," Ho responded. Then why isn't he here, if there was no major strategic difference between you? "This is a matter between him and the board."

Asiamoney contacted every member of that board; they passed inquiries back to Temasek itself and declined comment.

Goodyear himself offered his guarded view at the CLSA investment conference in Hong Kong in late September. "Differences of strategic vision was the best way to put it," was his terse response.

Given that such fundamental differences existed, many observers are curious about why Temasek brought Goodyear on in the first place, only to fall out with him. Even more pressing is the wealth fund's need to consider who will meet its criteria, if somebody as worldly as Goodyear could not.

A MATTER OF PERCEPTION

Temasek surprised many observers when it announced that it had hired an external CEO. After all, up until the global financial crisis the sovereign wealth fund's performance had been creditable.

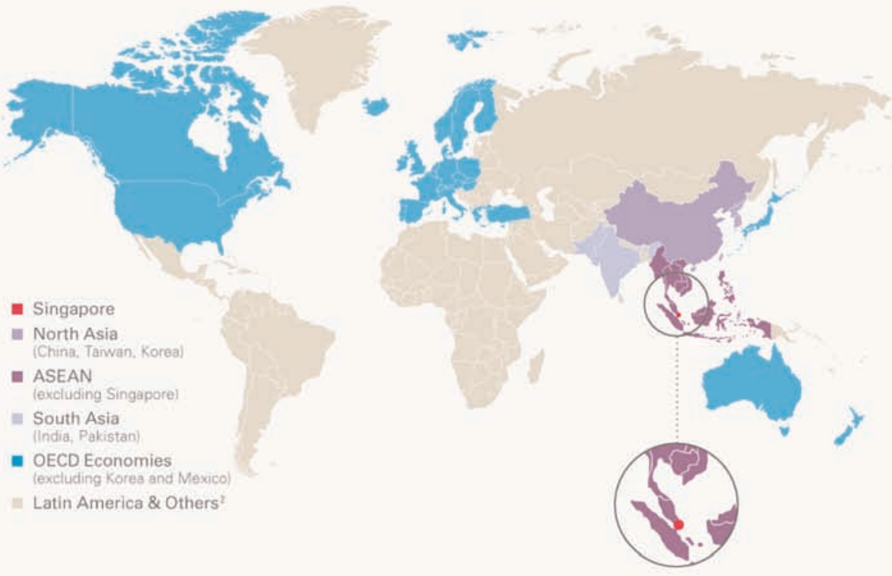
Ho, who became CEO in January 2004, has overseen 83% in cumulative returns between March 2004 and July 2009. That compares to 58% for the MSCI Asia Pacific ex-Japan and -3% for the MSCI World. While 28% of Temasek's assets are unlisted and therefore hard to assess, its broad performance has been impressive.

True, it's not all been plain sailing. Temasek bought stakes in Barclays Group and Merrill Lynch, only to incur major losses when selling the investments near the bottom of the market (it's not clear exactly when the sales were made and, therefore, the precise loss).

The sovereign wealth fund's full-year numbers looked ugly for the year ending March 31 2009. Its net portfolio value collapsed 42% from S$185 billion (US$130.3 billion) to S$130 billion, while net profit fell 66%, from S$18 billion to S$6 billion.

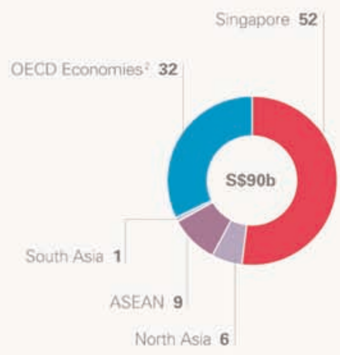
TEMASEK'S ASSET PORTFOLIO BY GEOGRAPHY[1] (%)

(AS AT MARCH 31)

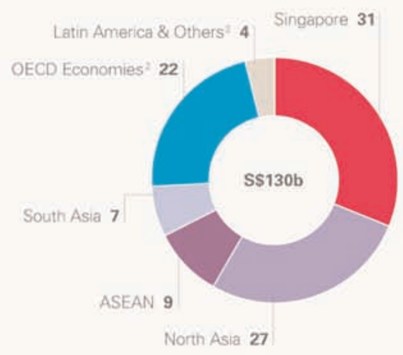


(AS AT MARCH 31)

TEMASEK'S PORTFOLIO IN 2004

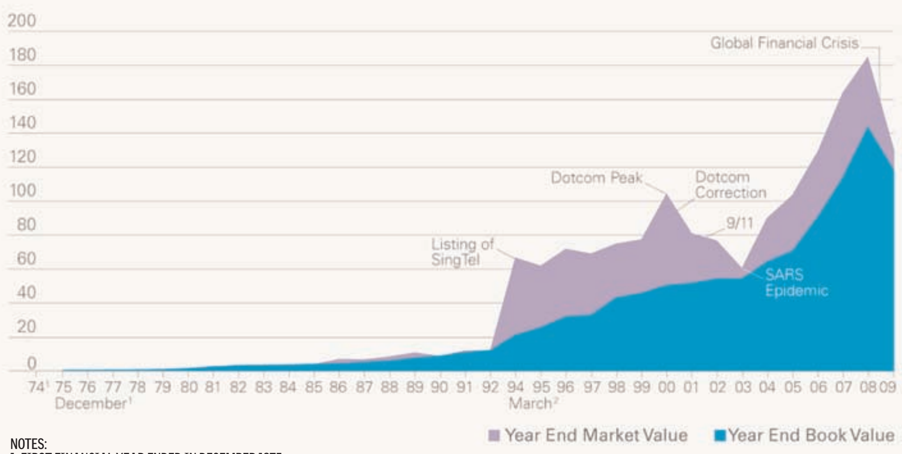


TEMASEK'S PORTFOLIO IN 2009



NOTES:
1. DISTRIBUTION BASED ON UNDERLYING ASSETS.
2. MEXICO IS CLASSIFIED UNDER "OECD ECONOMIES" IN 2004 AND UNDER "LATIN AMERICA AND OTHERS" IN 2009.
SOURCE: TEMASEK

VALUE OF TEMASEK'S PORTFOLIO (FY1974-FY2009) (IN S$ BILLION)



NOTES:
1. FIRST FINANCIAL YEAR ENDED IN DECEMBER 1975.
2. FINANCIAL YEAR-END WAS CHANGED FROM DECEMBER 31 BEFORE 1993 TO MARCH 31 FROM 1994 ONWARDS.
SOURCE: TEMASEK

But by the end of July, Temasek's portfolio had rebounded to S$172 billion, or 93% of its 2008 high.

"Maybe [Temasek] had their own embarrassment with Merrill Lynch, that's probably the one they wish they could take back. But they've rebounded with everyone else," says David Cohen, an analyst at Action Economics in Singapore.

Temasek's interest in Goodyear seems to have been linked less to reasons of performance than perception.

According to Ho, the Singapore agency began considering the possibility of succession in 2005. But it began looking in earnest in 2007. At the time, more and more Middle Eastern and Chinese sovereign wealth funds were buying western assets, which led to rising political pressure in the US and European Union to increase scrutiny of these funds to prevent them investing for political ends.

It appears that Temasek wanted to make it clear that it had nothing to hide. So, in contrast to Gulf-based funds, which disclose nothing at all about their investments and returns, the Singapore fund began highlighting its transparency, hoping that it would end up on the right side of any regulations that came into effect.

While Temasek's penchant for disclosure is not unlimited it compares well with many of the world's other sovereign wealth funds.

The Peterson Institute's most recent ranking in 2008 placed Temasek 18th of 34 sovereign wealth funds overall, 15th on governance and 11th on accountability and transparency. It publishes far more information in its 100-page annual reviews than it is required to as a private company.

But Temasek's efforts to allay any potential suspicions of regulators faced one challenge. While Ho has improved the wealth fund's transparency, accountability and professionalism, and boasts a credible financial record in charge, she is also married to Singaporean Prime Minister Lee Hsien Loong.

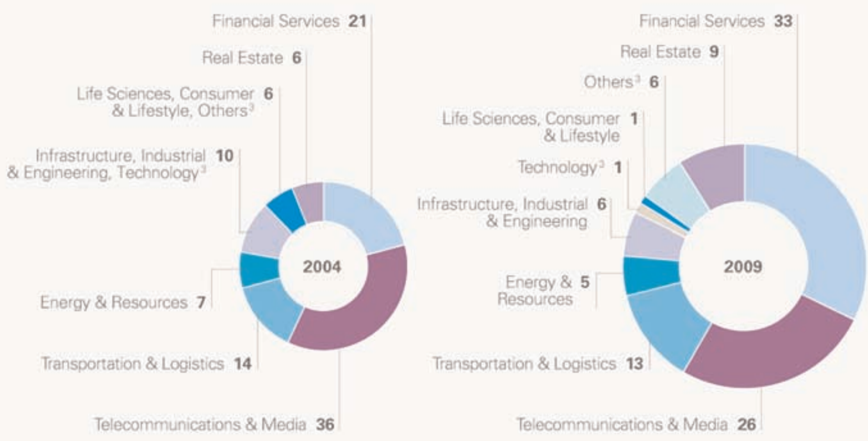
As officials at the sovereign wealth fund tirelessly point out to observers unfamiliar with its management, Ho answers to the board, which is utterly independent and decides on major strategic investments. As a result there is no political influence over the fund's strategy.

But amid an environment where regulators were becoming less accomodating of sovereign wealth funds, eradicating even the merest hint of cosiness may have factored into Temasek's decision to line up a western CEO with a private enterprise background.

CAREFUL WHAT YOU WISH FOR

With Goodyear Temasek was set to get exactly what it wanted: an indisputably independent leader, with all that entails.

TEMASEK'S ASSET PORTFOLIO BY SECTOR[1] (%) (AS AT MARCH 31)



NOTES:
1. DISTRIBUTION BASED ON UNDERLYING ASSETS.
3. "OTHERS" AND "TECHNOLOGY" ARE CLASSIFIED SEPARATELY AS STANDALONE SECTORS IN 2009.
SOURCE: TEMASEK

Executive director Simon Israel confirmed to *Asiamoney* at the media conference in September that Goodyear became involved in decision-making straight away.

"When Chip came on board, as part of his integration into Temasek, he became involved in a number of ongoing initiatives, and played a leadership role," he says. Asked to be specific about anything Goodyear was involved in, Israel adds: "Broad initiatives around organisation, around processes, around how you make decisions."

Some speculation suggests that Goodyear wanted to sell down financials and get into resources, and this was not welcomed by Temasek. But surely that was a key reason for his hire in the first place, given his resources background.

Other rumours include a key Chinese institution objecting to Goodyear because of his background with Australian mining, and that he hoped to introduce leverage into Temasek's investments, but these factors also look insufficient to explain the strategic rift between him and Temasek.

Instead, it seems most likely that an array of Goodyear's plans, both minor and major, were a bit too radical for the established organisation and management. These included everything from him wanting to generally raise a sense of increased discipline, to making specific recommendations about the senior management structure and key investments.

It is believed that some of these plans were not popular with Temasek's nine-person independent board. Perhaps most controversially, many observers believe that Goodyear wished to sell down holdings in key Temasek-linked companies.

This would have been a big sticking point. The wealth fund effectively owns some of Singapore's largest companies, including DBS, Singapore Airlines, Singapore Telecommunications and unlisted port operator PSA. And both past and present executives of all these companies are on the board today. Dropping stakes in businesses viewed as part of Singapore's heritage would have been very unpopular.

What's more, Goodyear was offering his strategic vision just as the global financial crisis hit its stride. Amid the turmoil, regulators had much bigger concerns than the motivations of sovereign wealth funds. And while strategic differences led to the amicable parting, Temasek must have been much less concerned about losing its CEO-in-waiting in such a markedly changed regulatory environment.

FEELINGS OF FRUSTRATION

In the end Temasek's split with Goodyear was probably for the best.

Edwin Truman, senior fellow at the Peter G. Peterson Institute for International Economics, says: "If you hire a new CEO into a com-

OVERWEIGHTING ASIA

Charles Goodyear's departure from Temasek has generated some controversy about the agency's goals in hiring him in the first place, yet little should change in a strategic sense.

The agency laid out some broad investment themes before Goodyear joined, notably a new geographical allocation of 40:30:20:10 for Asia, Singapore, the Organisation for Economic Co-operation and Development (OECD) and "other" (chiefly Latin America) respectively. This represents a move away from a previous target of one-third Asia, one-third Singapore and one-third OECD – in other words, an overweighting of Asia and other emerging markets at the expense of the developed world.

The agency has even made some progress in the commodities space, the one area Goodyear would have offered unquestioned knowledge.

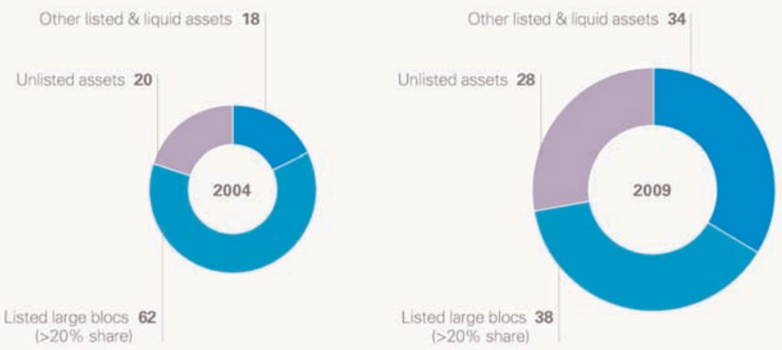
In June it paid S$438 million (US$308.4 million) for a 13.8% stake in Olam International, which is chiefly a soft commodities business. It has also bought a stake in the unlisted Chinese iron ore producer Lung Ming, in partnership with the Beijing-based private equity vehicle Hopu Investments; 15.4% of the Brazilian oilfield services company, San Antonio International; and 19.5% of Korea's EKN, which as a manufacturer of compressed natural gas cylinders is an indirect commodities play too.

Temasek's strategic direction does raise a number of challenges. The biggest underweight at present according to the 40:30:20:10 target is the "other", chiefly Latin America, which accounts for only 4% of the portfolio today.

While Temasek's CEO Ho Ching says the allocation target is only a guide, it would require about S$10 billion of investment in that region to realise it. Temasek has bolstered resources there – new offices in Mexico, to be run by Barclays Capital's former Mexico CEO Lorenzo Gonzalez Bosco; and in Brazil, where veteran Temasek insider Alan Thompson has relocated – and is likely to focus on energy and resource investments. But it's a steep learning curve.

Other challenges include addressing the fund's still heavy weighting to financials, which stood at 33% of the portfolio as of March 31, and a potential loss of staff caused by a performance-linked remuneration structure that cut incomes and bonuses across the board last year.

TEMASEK'S ASSET PORTFOLIO BY LIQUIDITY (%) (AS AT MARCH 31)



SOURCE: TEMASEK

"When Chip was selected we were all told how thorough the process was and that every board member was involved in interviewing [him]," he says. "Then despite this so-called very comprehensive search and selection process, it failed so quickly."

Singh asked in parliament if Finance Minister Tharman Shanmugaratnam – the key representative of Temasek's only shareholder, the ministry of finance – would ask Temasek to review its selection process "so that they don't make the same mistake again".

Tharman declined to answer the question, Singh says. But the minister did make some telling remarks about Singapore's preference for Temasek's next CEO in parliament on August 18.

"The question of whether the CEO of Temasek should be a Singaporean is not a trivial one. It is one which Cabinet considered very carefully and debated before arriving at a decision," he said. "I would say that ideally we should have a Singaporean as a CEO."

The remark appears to run at odds with Temasek's independence from political meddling, though Tharman subsequently qualified it: "The board knows our preferences, but it knows also that the government wants to ensure that Temasek gets the best person for the job each time it looks for a potential CEO successor…To restrict their choices would also be sending a signal, not just to Singaporeans but more importantly to the countries in which Temasek invests, that there is an element of political decision-making in the way Temasek is run. We do not want to send this signal."

plex organisation like Temasek and it turns out his or her image or vision … [is not] consistent with what the board wants, the sensible thing is not to try to live with the problem but to cut your losses and go your own way."

But while few dispute the break-up, the sovereign wealth fund's lack of clarity about how it ended up making the wrong choice frustrates some observers. The most outspoken has been Inderjit Singh, a member of the ruling People's Action Party, deputy government whip and member for the Ang Mo Kio area in Singapore's residential heartlands.

He tells *Asiamoney* he believes Temasek "did what it had to do" and handled its information flow "the way a professional organisation should". But he thinks the government's response has been insufficient.

INDERJIT SINGH
a member of the ruling People's Action Party, deputy government whip and member for the Ang Mo Kio area in Singapore's residential heartlands.

UNDER ITS NOSE?

Temasek is now in an uncomfortable situation where it risks having a vacuum at the top. It's well known that the sovereign wealth fund wanted to move in a new leadership direction, only to end up with the same team it started with.

The board needs to quickly clarify its plans. It doesn't seem likely that it will plump for another true outsider, yet Temasek needs a candidate who can combine international experience with local knowledge.

It's possible that the sovereign wealth fund may already have someone that fits the bill. Simon Israel has worked day in, day out at Temasek as an executive director for more than three years. Before this he was the Asia-Pacific chairman of Danone Group over 10 years, and before that he spent 22 years working for Sara Lee Corp. across the region.

It's not known if Israel would even want the job if he was offered it – he declined to comment when *Asiamoney* asked – but he is probably more qualified than any other foreigner in Singapore. He has taken citizenship; he chairs the Singapore Tourism Board and a locally based multinational, Asia Pacific Breweries. He is also a director of three of Singapore's blue chips (Fraser and Neave, Neptune Orient and SingTel); and he is on the business advisory board of the Lee Kong Chian Business School at the Singapore Management University.

Perhaps most importantly, Israel is respected within and without the organisation and is a perfect bridge between Temasek and western enterprises – be they government, corporation or media.

Temasek has two choices to quickly clear up its leadership uncertainties. Either it publicly announces that Ho will stay on for a set period, or it allows her to step aside and finds somebody compatible with local interests to take over. If it's the latter, the solution may be staring the board in the face.

Unless, that is, Temasek's experience with Goodyear has left it with little room for anybody who is not born and bred in Singapore. ◢