Transcript: Temasek Review 2018 Media Conference
10 July 2018

The following is a transcript of the Presentation of the 2018 Temasek Review. The text should be read in conjunction with the slides shown in this transcript. It has been edited from delivery only for readability.

STEPHEN FORSHAW:

Good afternoon, ladies and gentlemen, a very warm welcome to Temasek Review 2018. My name is Stephen Forshaw, I will be your emcee for today. A couple of quick housekeeping announcements before we start, if I may. Unless otherwise mentioned in the presentation today, all figures are in Singapore dollars. Our reporting currency is in Singapore dollars so please take that into account. The financial year period we're reporting on is 1 April 2017 to 31 March 2018.

Our format for today will be we'll open shortly with a video presentation of the year in review. We will then have a presentation from two of our investment managing directors, Alpin Mehta and Sulian Tay. We will then open the floor to questions, for your questions. For the benefit of those who will be watching this later on Facebook, and for the transcript, could I please identify could I please ask you to use the microphone in front of you, press the button, you should see the red light come on the microphone, and identify yourself by name and organisation, also for the benefit of our panellists.

Joining Alpin and Sulian for the Q&A will be Png Chin Yee, Mike Buchanan and Rohit Sipahimalani. The profiles and designations for all of our presenters today are in the media kit in front of you and I think you also have access to their photos in addition to the photos that are being taken today.

In front of you we have a little door gift for you: compilation of products from the Lemongrass Factory which is a social enterprise that has been established supporting Cambodian farmers. The enterprise itself relies on a number of our staff within Temasek as mentors of the business and the proceeds are going very directly to support Cambodian farmers. So we thought this would be a nice little thing to leave you with today after the ceremony, so please feel free to take it with you.

Can I also just ask, before we start, that you switch your phone to silence so they don't interrupt the presenters that would be very much appreciated.

In front of you, you have the Temasek Overview for 2018 as well as the highlights version. Some of you who have been with us for many years will be used to the fact that we usually present you with a longer 100 page Temasek Review book. This year all of that material will be available on the online version, so we're moving more of that material online. You will find that that information online is there and in addition has a whole lot of interactive features so allows you to review the data over various time periods and so as part of our journey to provide more and more information to you in a cleaner, more interactive format, we're moving more to use the online tools that are available to us. So please feel free to go to temasekreview.com.sg and all of that material will be there. The versions that you see in front of you are the summary versions we've also been producing for some years.

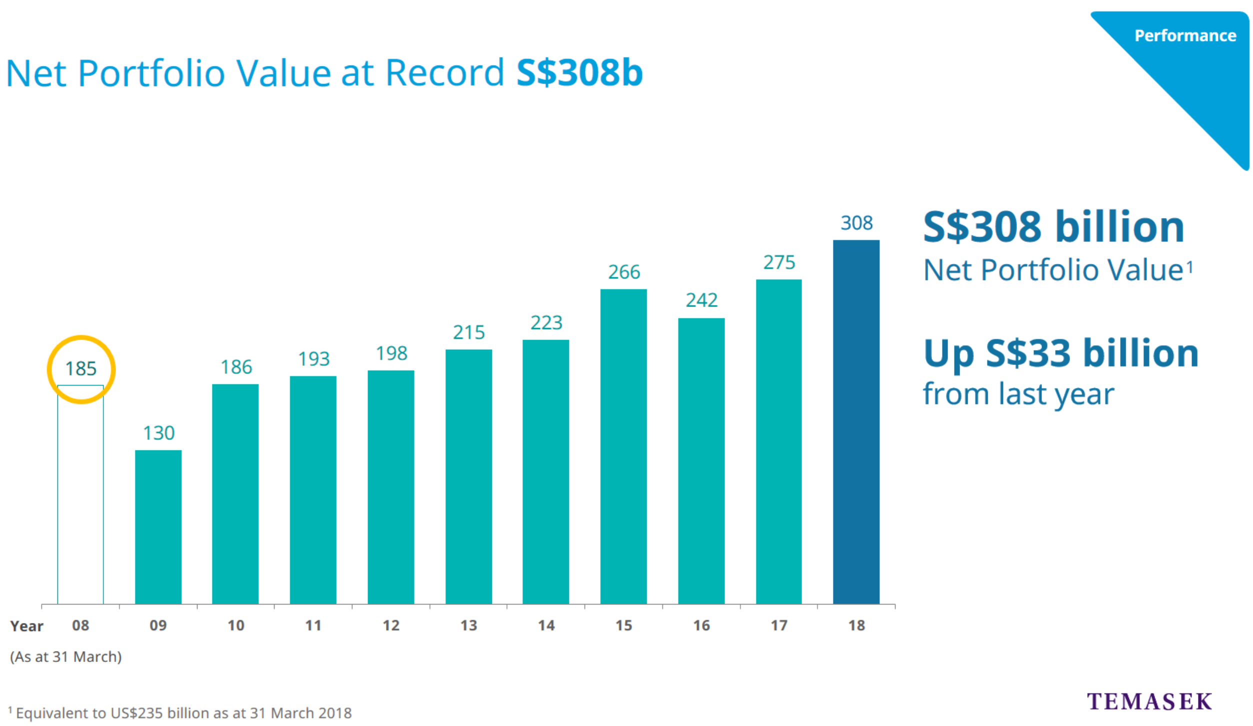
With that introduction, I'd now like to welcome you to the presentation of Temasek review 2018, themed Shaping Tomorrow.

(Link to Temasek Review 2018: Snippets)

ALPIN:

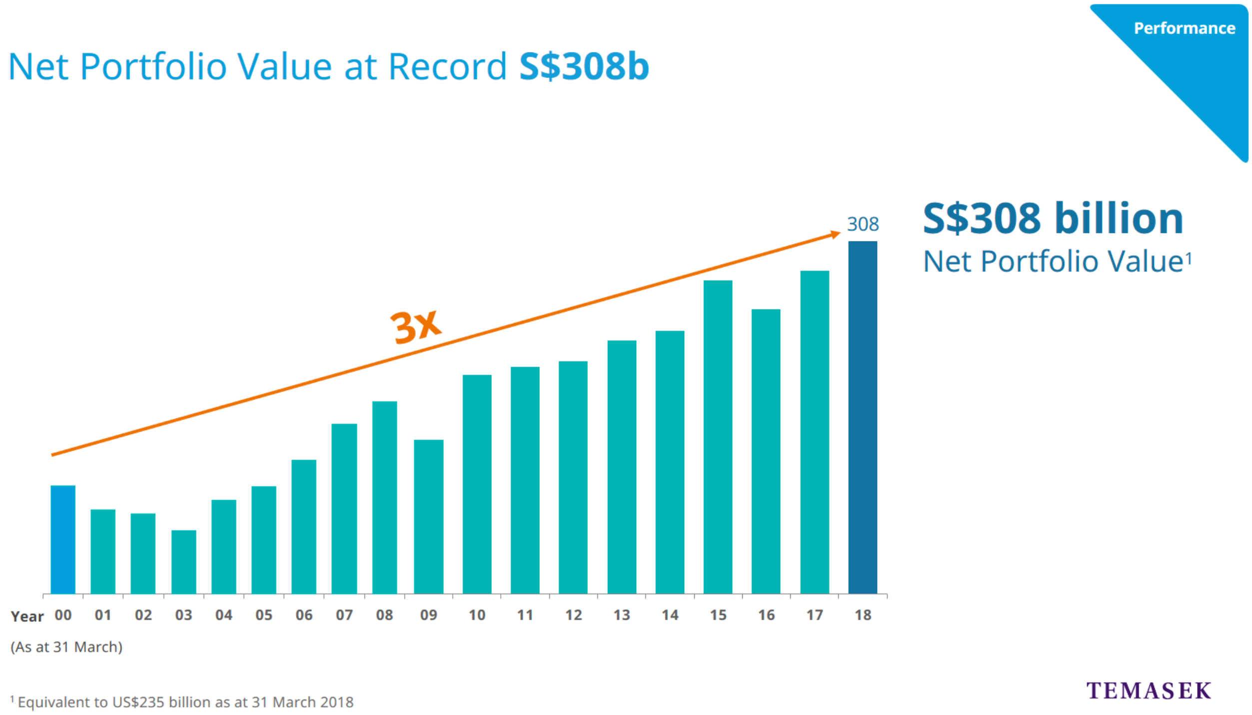
Good afternoon. Let me now take you through our performance numbers.

The key to our investment approach is to remain disciplined, as we reshape our portfolio.

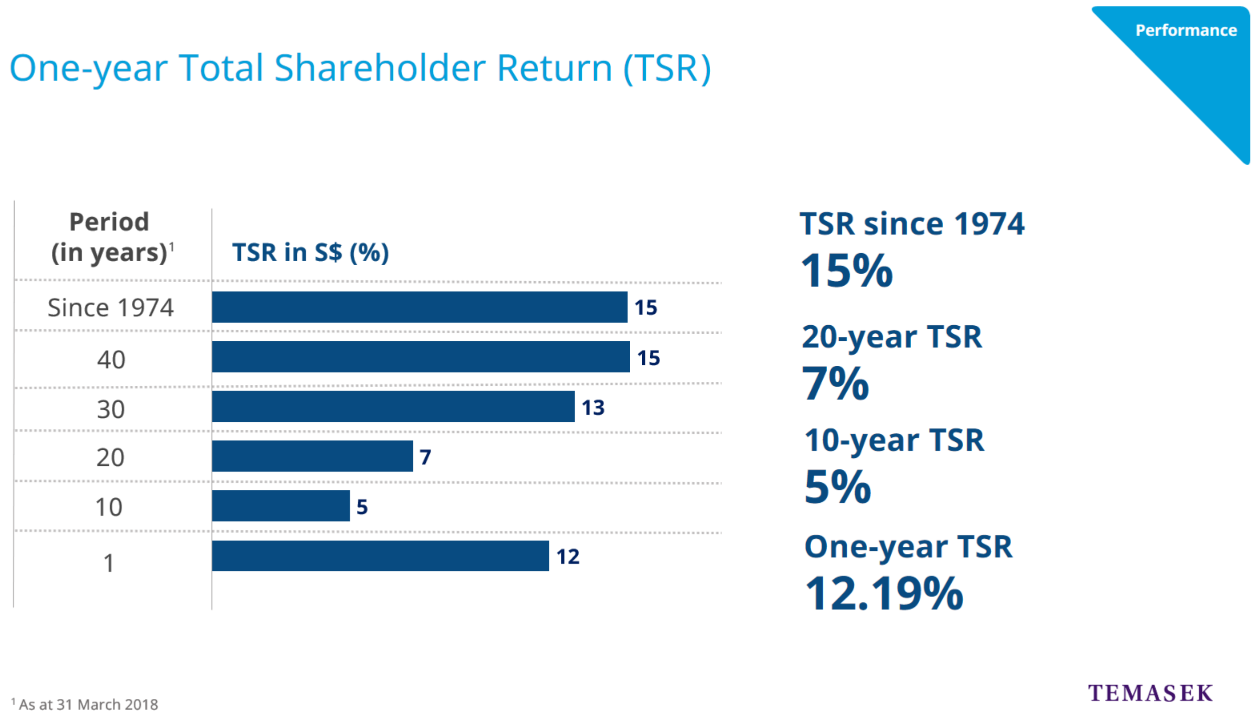


As you saw in the video, our Net Portfolio Value was $308 billion. This is up $33 billion from last year.

This chart shows the changes over the last decade, from the pre-GFC high point in 2008.

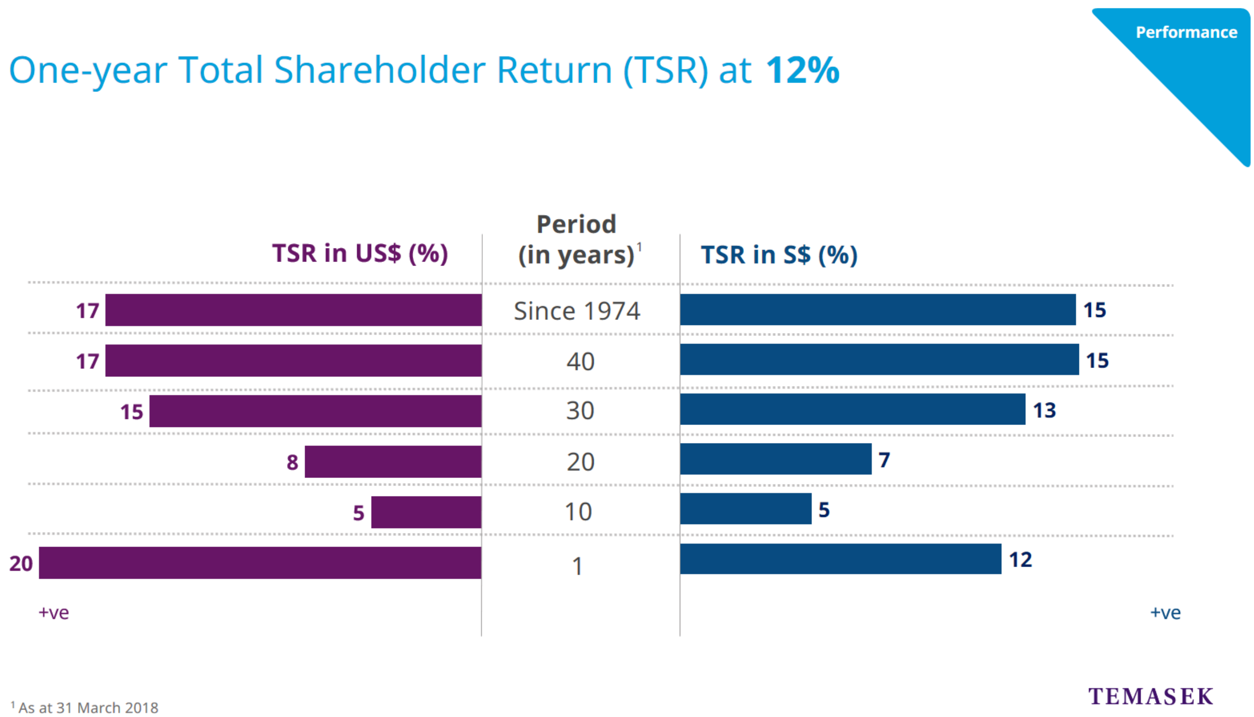


…And it is now almost three times the dotcom peak in the year 2000.



This chart shows TSR over different time periods. TSR includes the dividends paid to our shareholder and excludes capital injections from our shareholder.

Our one year TSR was 12.19% and our long term 10- and 20-year TSRs were 5% and 7% respectively and our TSR since 1974 was 15%.

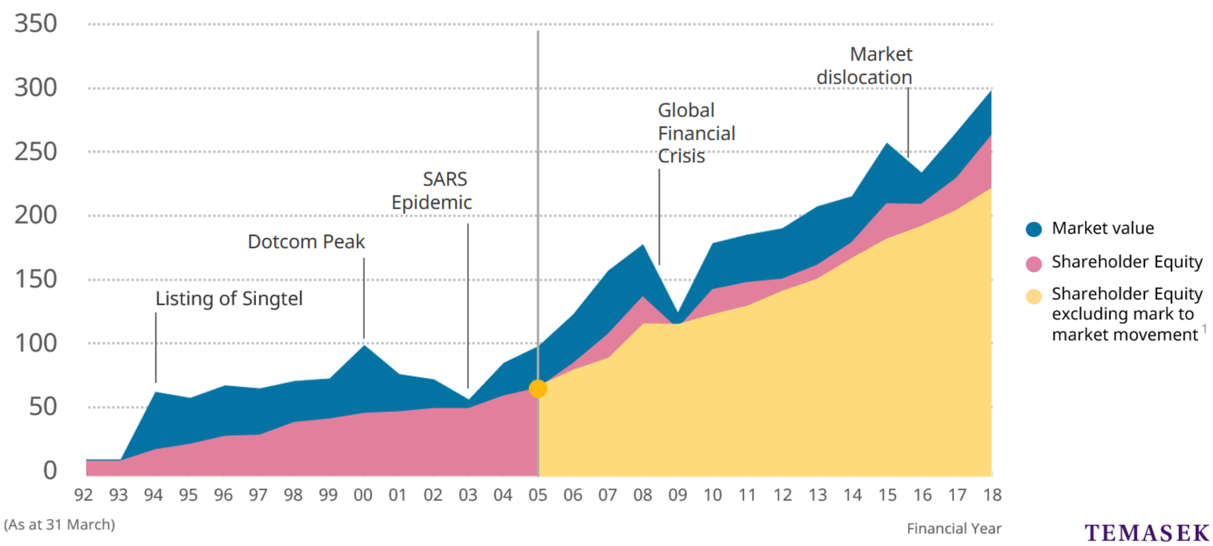


We measure our investment returns in our base currency of Singapore Dollars, we don't use US Dollar TSR as a reference ourselves, but you may find it handy and you'll see that on the left, in purple.

Underlying Profitability and Resilience of Our Portfolio

Over 25 years

(in S$ billion)



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[1] From the financial year ended 31 March 2006, the accounting standards require sub -20% investments to be marked to market.

The blue area shows our portfolio since 1992. It rises and falls, as does the market. So it is therefore more volatile on a year to year basis.

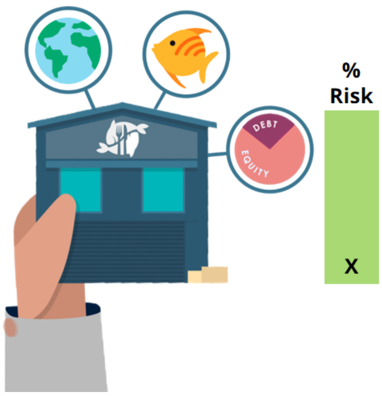
The pink area reflects our shareholder equity. From the financial year starting 1 April 2005, the accounting standards require sub-20% investment to be mark to market and adjusted against our shareholder equity.

The yellow area reflects our shareholder equity excluding mark to market movement. You can see that it is more resilient compared to the blue and pink areas. This reflects the more stable underlying performance of the companies in our portfolio.

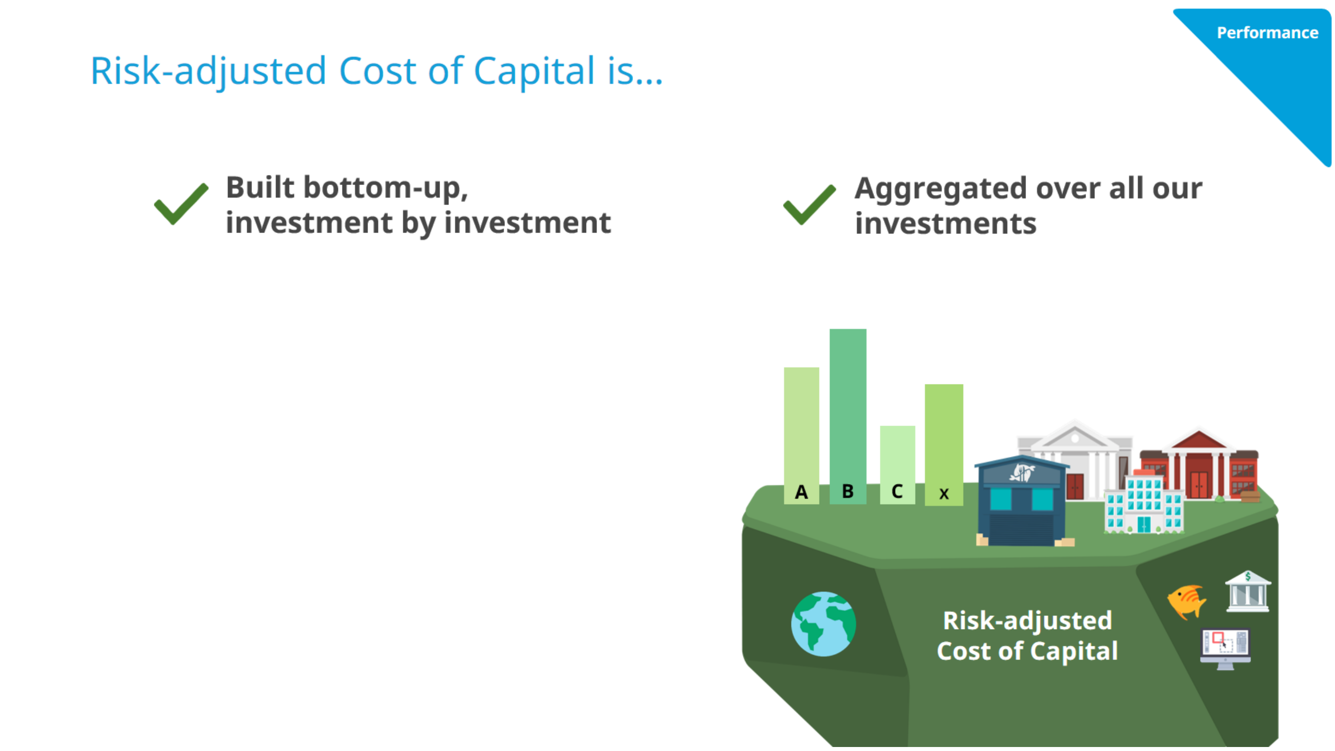
Risk-adjusted Cost of Capital is…

Performance

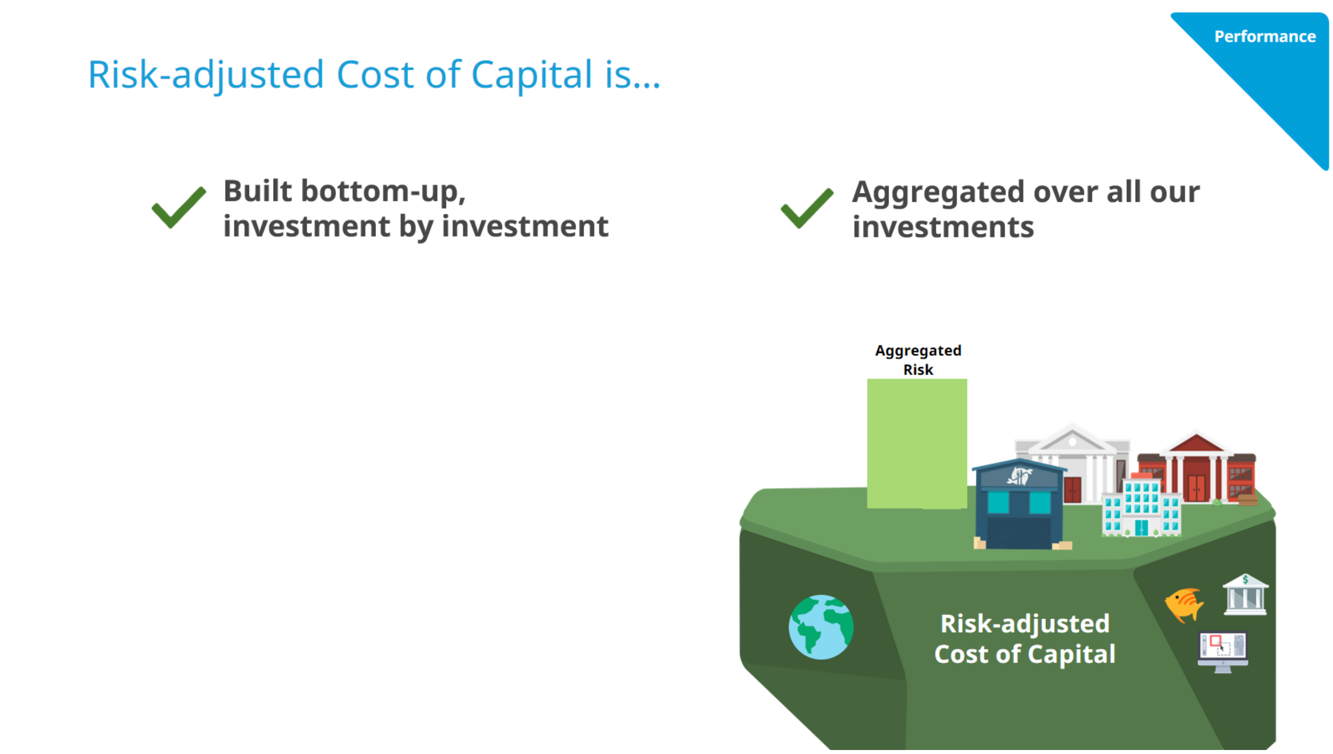
Built bottom-up, investment by investment



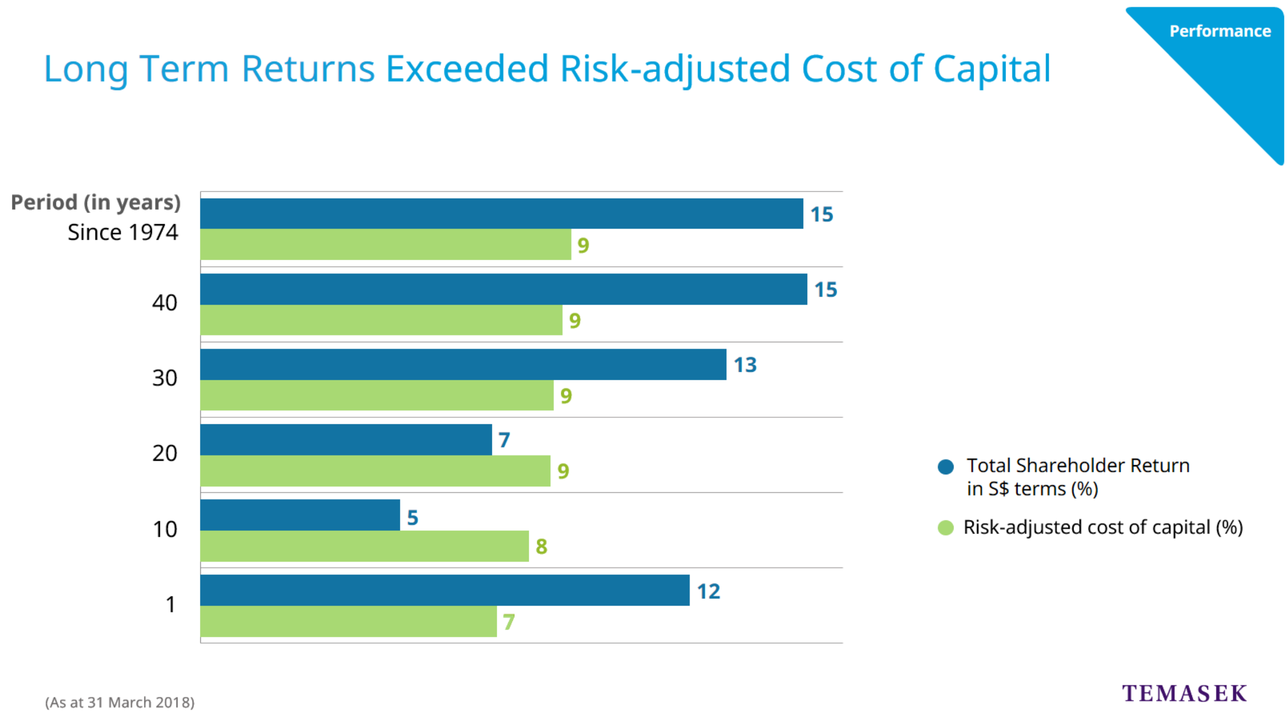
Next, let me explain our risk-adjusted cost of capital approach. It is first built bottom-up, investment by investment, and takes into account the country, sector and company risks.



It is then aggregated over all of our investments.



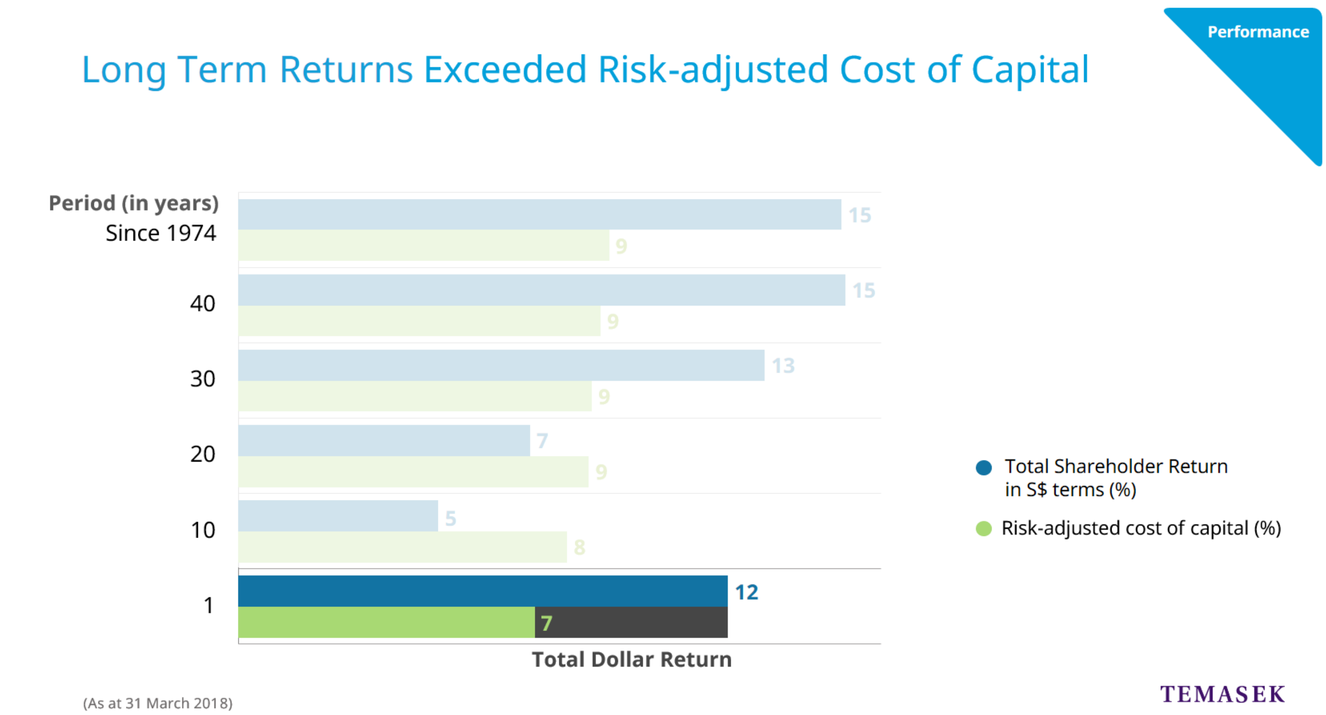
So, we don't have a single firm-wide cost of capital, but the number we report is an aggregation.

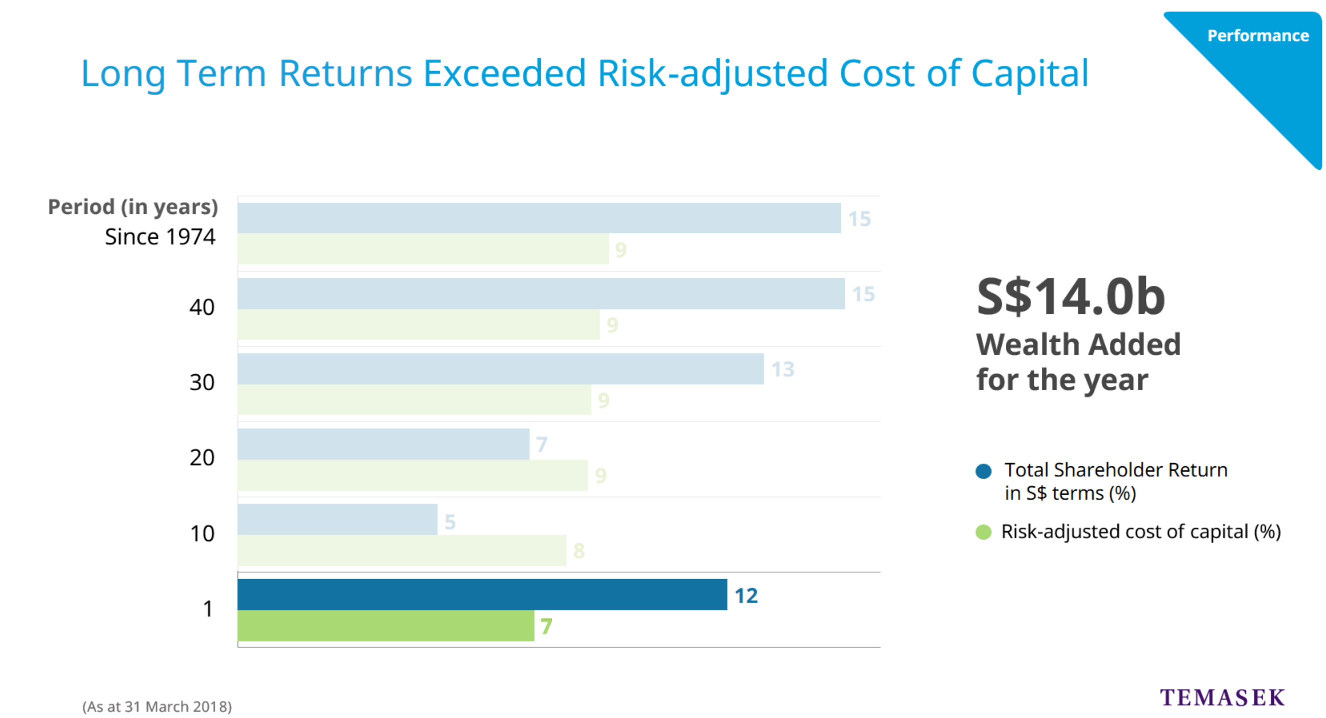


The blue bars are Temasek's returns. The green bars are our cost of capital, aggregated over the periods in the chart.

As you can see, our long term TSRs over 30, 40 years, and since 1974 have outperformed our cost of capital.

Our One-year TSR of 12% outperformed last year's cost of capital of 7%.

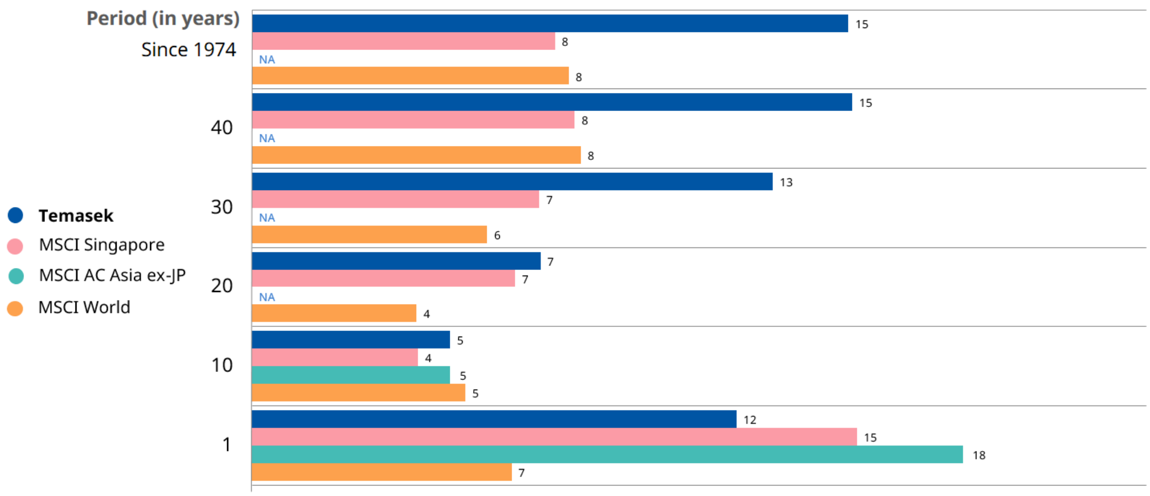




And as a result, our total dollar return above the cost of capital, also known as Wealth Added for the year, was S$14 billion.

Performance

Our TSR Outperformed Indices over Longer Time Periods



(As at 31 March 2018)

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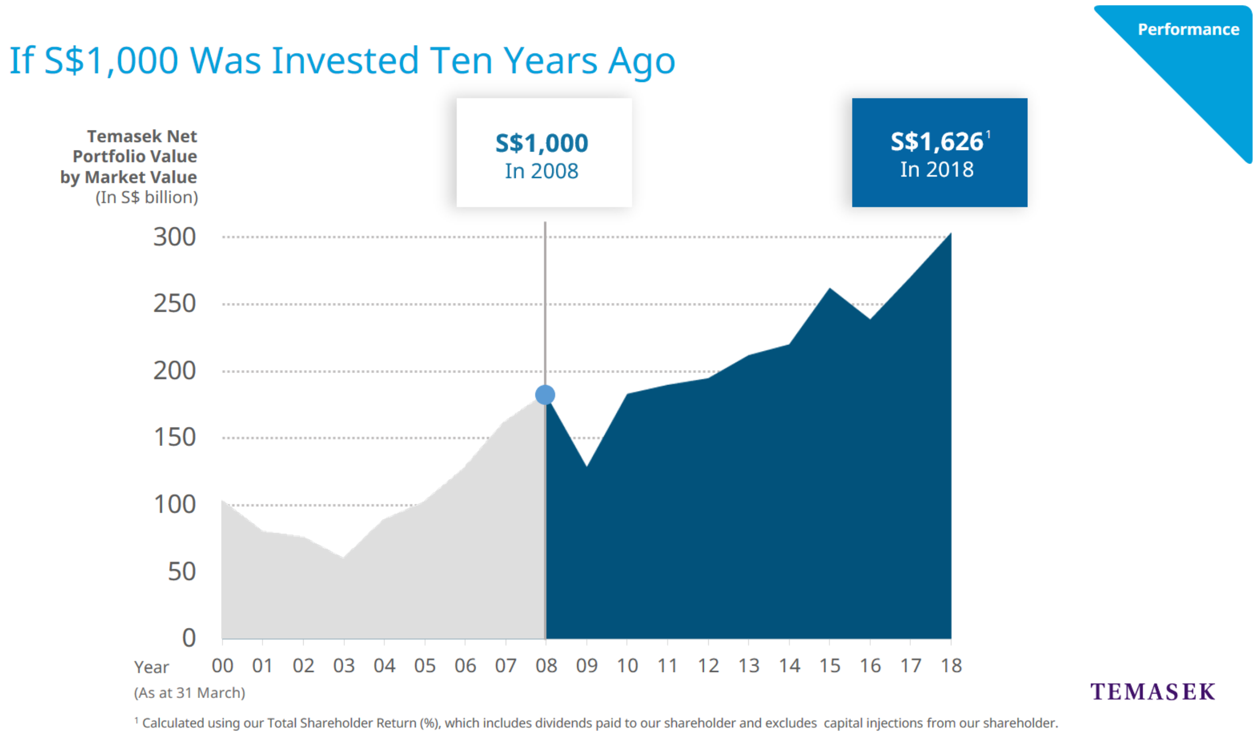
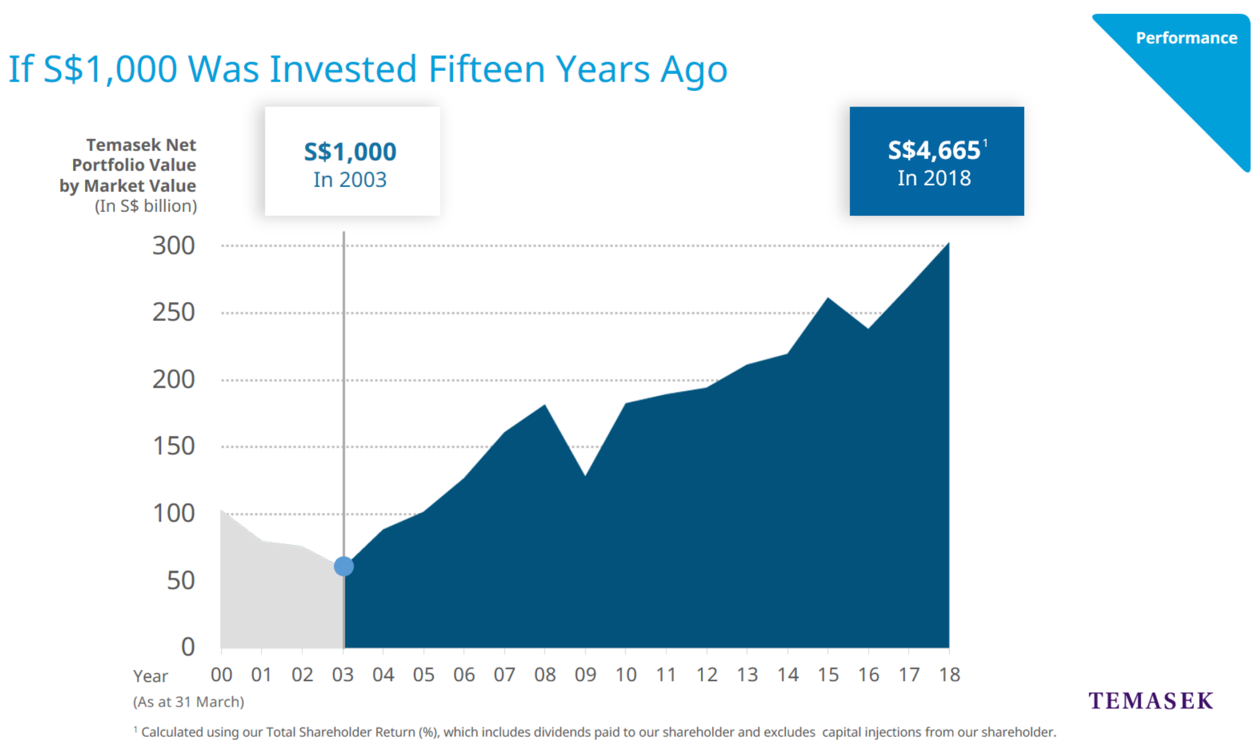
Here we have our returns over different time periods. We don't manage our portfolio by public market benchmarks. But you may appreciate the references against various market indices, for example:

MSCI Singapore Index, MSCI Asia excluding Japan, and MSCI World, over various time horizons.

Temasek has generally outperformed these indices over long time periods, particularly in Asia where we are anchored.

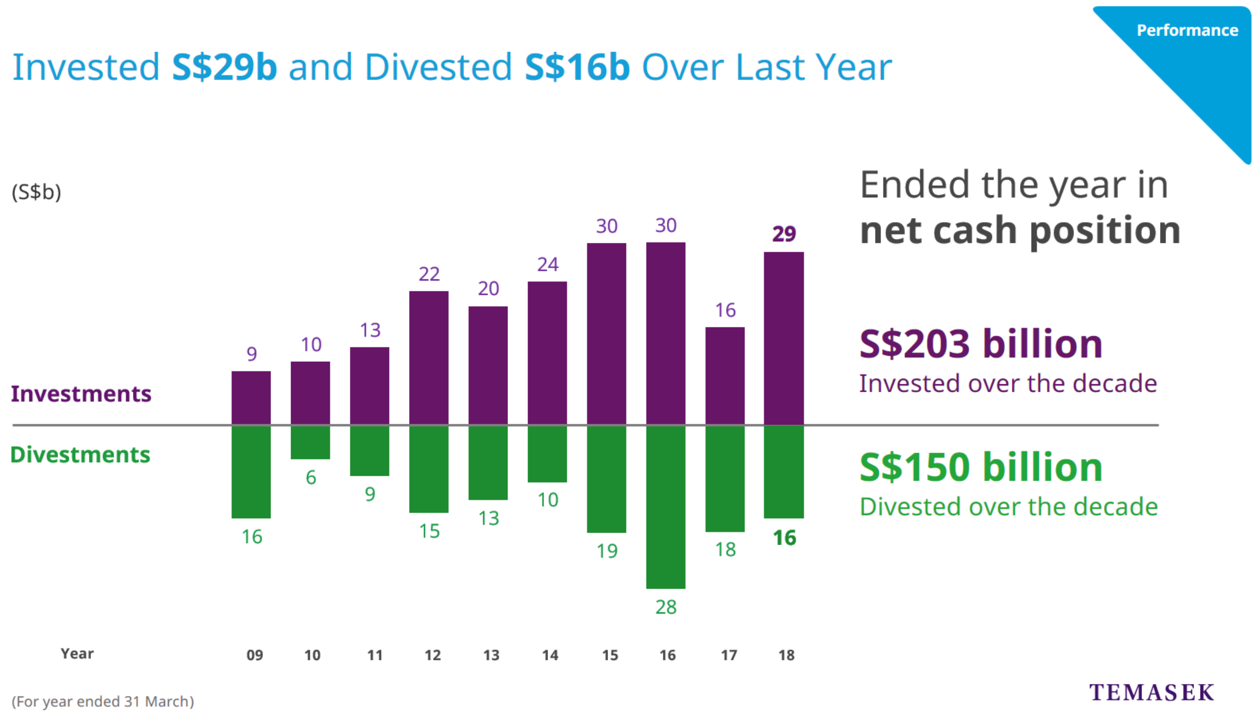


Here's another way of looking at our performance over time. This is the net portfolio value chart that I showed earlier. If one thousand dollars had been invested in Temasek ten years ago, it would be worth S$1,626 as at 31 March this year.



If we invested in 2003, fifteen years ago, during the SARS trough, it would have grown to S$4,665. This tool is available for you on our Temasek Review website and you can run this over different time periods.

Ok, this wraps up the performance discussion.



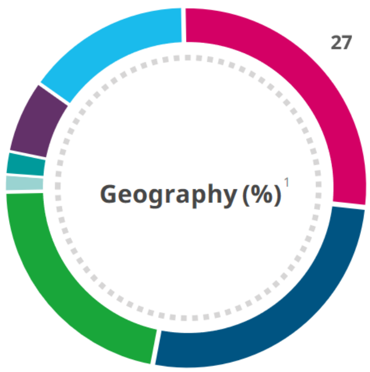
Let's now turn to how we have shaped our portfolio.

We invested S$29 billion dollars during the year, capitalising on investable opportunities including counter-cyclical ones. And over the past decade, we have invested over S$200 billion dollars.

On the other hand, we divested S$16 billion during the year. And have divested around S$150 billion over the decade.

We ended up the year in a net cash position.

Portfolio Anchored in Key Economies



Year	2018	2017	2016
Singapore	**27**	29	29
China	**26**	25	25
North America & Europe	**22**	20	18
Rest of Asia	**15**	14	15
Australia & New Zealand	**7**	8	9
Africa, Central Asia & the Middle East	**2**	2	2
Latin America	**1**	2	2

(As at 31 March)

[1] Distribution based on underlying assets.

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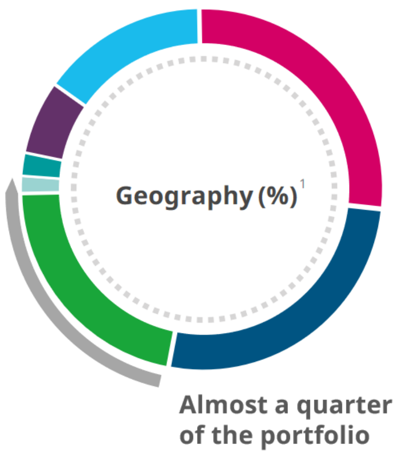
This diagram shows our portfolio mix by geography. Singapore remains our largest concentration, at 27%. We calculated this based on the underlying assets of our portfolio companies.

For instance, in the case of DBS, this only reflects the assets they have in Singapore. Singapore is followed by China, at 26%. Likewise, DBS assets in China are included in the China's portfolio.

Performance

Portfolio Anchored in Key Economies



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Africa, Central Asia & the Middle East	2	2	2
Latin America	1	2	2

(As at 31 March)

[1] Distribution based on underlying assets.

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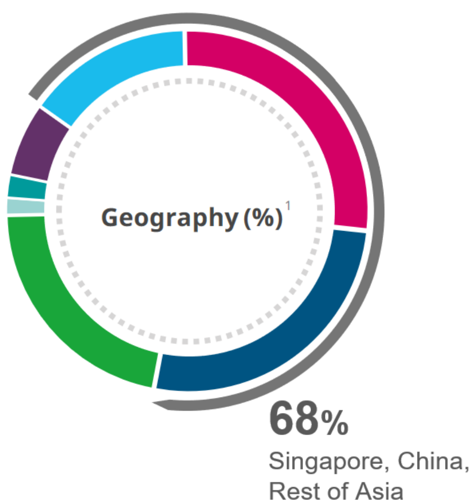
The Americas and Europe continue to grow in both size and proportion and now, represents almost a quarter of our portfolio.

Performance

Portfolio Anchored in Key Economies



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(As at 31 March)

[1] Distribution based on underlying assets.

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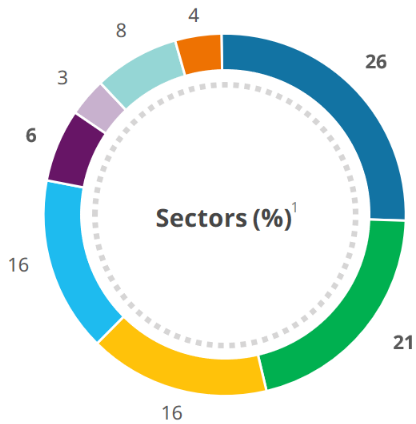
Overall, we remain anchored in Asia, which represents about two-thirds of our portfolio.

Financial Services, TMT Remain Our Two Biggest Sectors



Year	2018	2017	2016
Financial Services	26	25	23
Telecommunications, Media & Technology (TMT)	21	23	25
Consumer & Real Estate	16	17	17
Transportation & Industrials	16	17	18
Life Sciences & Agribusiness	6	4	4
Energy & Resources	3	3	3
Multi-sector Funds	8	8	7
Others (including Credit)	4	3	3

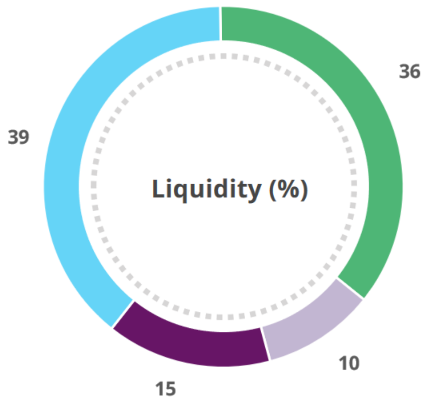
(As at 31 March)

[1] Distribution based on underlying assets.

So here is a snapshot of the sectors in our portfolio.

The two largest sectors continue to be Financial Services at 26%, shown in dark blue and Telecommunications, Media and Technology, at 21% in green. Also, the Life Sciences & Agribusiness sector grew to 6% last year, up from 4% the previous year.

Unlisted Assets at 39% of Portfolio



Year	2018	2017	2016
Liquid & sub-20% listed assets [1]	**36**	33	31
Listed large blocs (≥ 20% to <50% share)	**10**	9	10
Listed large blocs (≥ 50% share)	**15**	18	20
Unlisted assets	**39**	40	39

(As at 31 March)

[1] Mainly cash and cash equivalents, and sub-20% listed assets.

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We have holdings in unlisted assets and they made up 39% of the portfolio.

Examples are investments in third party managed funds, and privately held companies.

It is our portfolio approach that allows us to deploy capital flexibly.

We can take positions in private or public, early or mature companies, and at various levels of concentration, from minority to majority stakes.

Therefore, it allows us to invest at an early stage, and follow it right through to their eventual listing, and beyond.

For instance, we invested in Alibaba when it was unlisted a few years ago.

Post March 2018, we did it again with payments company, Adyen, which listed on the Amsterdam Stock Exchange.

On the whole, our listed portfolio is over 60%.

Growing Our Focus Sectors

26%

Technology
Life Sciences
Agribusiness
Non-Bank Financial Services
Consumer

(As at 31 March 2018)

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Since 2011, we have reshaped our portfolio to focus on the following sectors; Technology, life sciences, agribusiness, non-bank financial services and consumer. Together, these focus areas made up 26% of our overall portfolio. And that's up from just 5% of a much smaller portfolio 7 years ago.

New Investments Last Year

Performance

S$13b

Technology
Life Sciences
Agribusiness
Non-Bank Financial Services
Consumer

(From 1 April 2017 to 31 March 2018)

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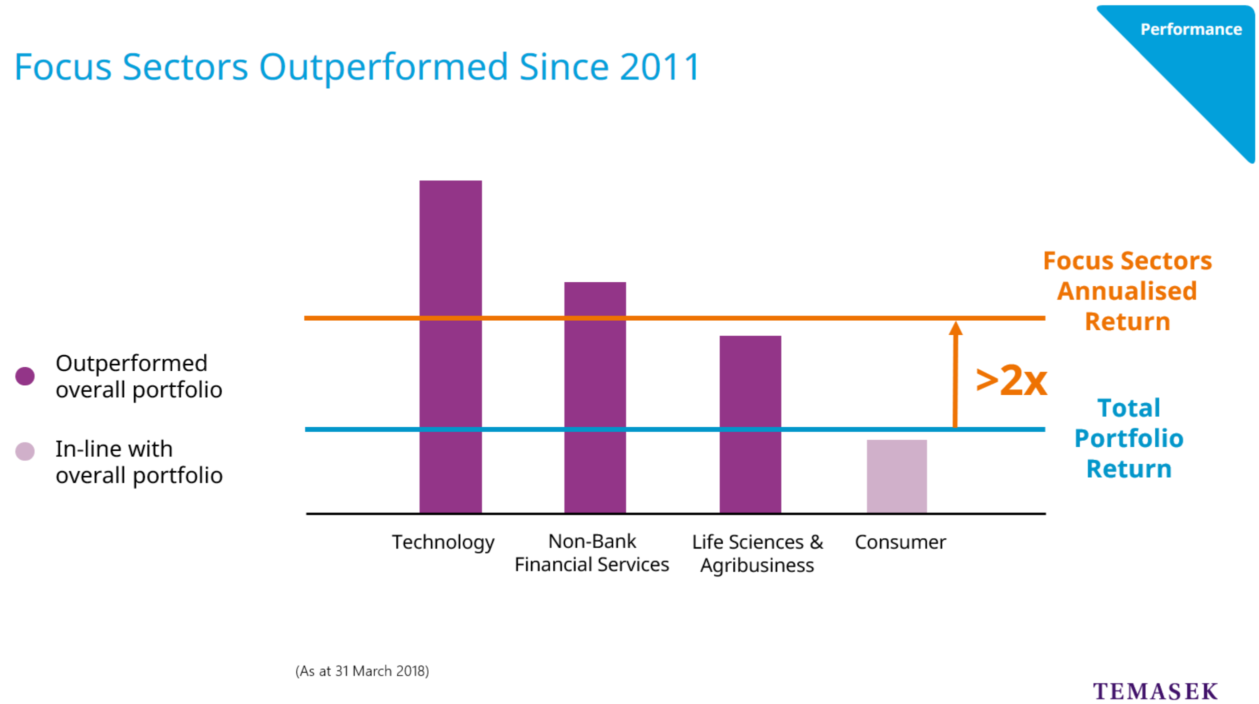
Last year, our new investments totaled S$29 billion. Our focus areas made up nearly half at S$13 billion dollars.



Now, let me show you how these focus sectors performed, against the overall performance of our portfolio since 2011.

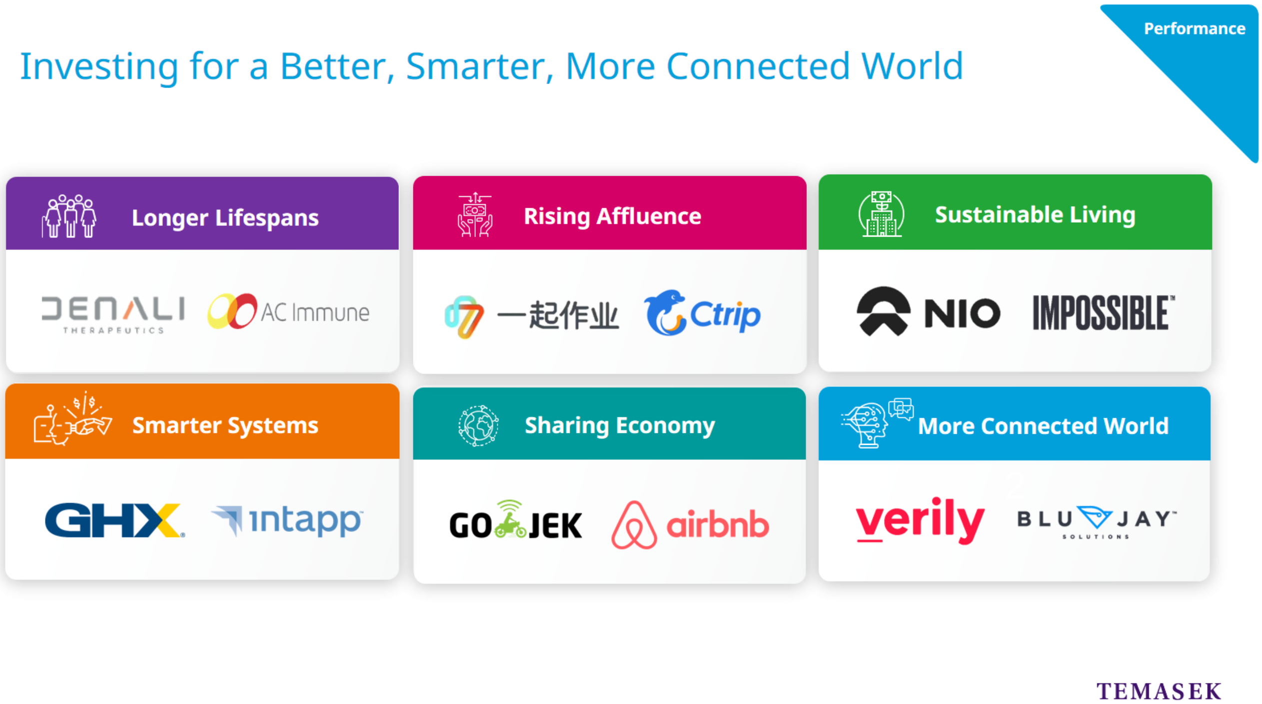
Our total portfolio return is represented by the blue line. Investment returns on Consumer are generally in line with our portfolio return.

Whereas, Investment returns on Technology, Non-Bank Financial Services, Life Sciences & Agribusiness have outperformed our overall portfolio.

In fact, the orange line shows that our annualised return across these focus sectors is more than two times our total portfolio returns.

As a whole, the reshaping of our portfolio towards these focus sectors has had a positive impact on our returns.

Beyond these focus sectors, we are also looking into new global trends that can guide our future investments.



Looking forward, we have identified six trends. These will guide our investments towards a better, smarter and more connected world.

For example, the opportunities created by longer lifespans have led to investments in biopharma companies like Denali and AC Immune.

Similarly, the combination of rising affluence and advancing technology in emerging markets, have led to investments in companies like 17Zuoye, an online learning platform and Ctrip, the largest online travel agency in China.

Companies like NIO, an electric vehicle manufacturer and Impossible Foods, a plant-based alternative meat producer, are well positioned to meet the increasing demand for sustainable living.

Likewise, Global Health Exchange and Intapp, a software provider for legal profession, are examples of companies that develop smarter systems.

Peer to peer networks such as Go-Jek and Airbnb, are tapping into the sharing economy… While digital companies such as Verily, which uses big data to analyse healthcare trends and BluJay, a logistics software provider, are empowering a more connected world.

In summary, we continue to reshape our portfolio for tomorrow.

Before I hand over the time to Sulian, here's a video on Go-Jek, one of our investments towards a better, smarter and more connected world.

SULIAN:

Thanks Alpin.

Good afternoon everyone.

I'll be walking you through our thoughts on the economic outlook.

And I'll also share a little about our institutional activities in the community.

The global economy has been running above trend.

In the near term, we expect growth to moderate.

We also see the probability of downside risks increasing.

The US is late in its expansion cycle, which increases the chance of a recession.

In addition, medium term risks include rising trade and geopolitical tensions as well as monetary and financial stresses in some important economies. These could increase volatility and even dampen global growth potential.

In this context, we are more cautious but as always, we remain alert and open to attractive investment opportunities.

I'll now discuss key markets in more detail.

Starting with China.

We believe China will address its economic challenges, rebalance its economy and continue on the path of sustainable growth.

We anticipate that ongoing structural reforms will help reduce financial risks.

These reforms will also encourage the shift towards more consumption driven growth.

This transition may mean growth is slower overall, but we remain positive on China's potential to be one of the world's fastest growing large economies for years to come.

We will continue to focus on investing in companies that benefit from these structural changes.

Turning to the United States, growth has been strong, but risks are building.

We anticipate GDP growth to continue above trend this year, reflecting tax cuts and increased government spending.

Private consumption has also been resilient and labour market improvements are providing additional support.

We expect the Federal Reserve will continue tightening monetary policy.

However, with the economy running above capacity and a fiscal boost in the late stage of this economic cycle, the risk of overheating has increased.

Against this backdrop, we are pacing our investments, and focused on our intrinsic value-based approach.

Let me now shift to Europe.

After a strong 2017, growth has moderated.

In our baseline view, it will remain sufficient for the ECB to gradually normalise monetary policy.

Politics remains a downside risk for Europe, particularly in the UK and Italy.

The UK political environment is fragile with few signs of progress in Brexit negotiations.

As a result, UK's post-Brexit trading relationship with the European Union is uncertain.

For Italy, the risk of exiting the Eurozone remains low. But, concerns around Italy's debt could impact European sentiment.

Overall in Europe, our investment approach is to continue to seek strong and resilient companies.

Finally, let me turn to Singapore.

We have benefited from the growth of our major trading partners.

Any risk to their economies or global trade is a cause for concern.

Last year, GDP growth accelerated as global economic activity increased.

This year, we expect domestic consumption to increase and the labour market to remain robust.

Together with the Government's efforts to boost productivity, we expect GDP growth to hold firm and inflation to move slightly higher.

You may have seen recent news about Singapore's labour market strength.

While jobs created in the services sector have offset losses in manufacturing and construction, wage growth has been subdued.

The challenge is to upskill and reskill to adapt to structural changes, including the move to a more digital economy.

Singapore's open economy is also sensitive to global conditions, and vulnerable to any impact from escalating trade tensions.

However, we are constructive on medium term growth prospects.

This is because of Singapore's competitive and open business environment, educated workforce, stable policy landscape and proximity to the growth economies of Asia.

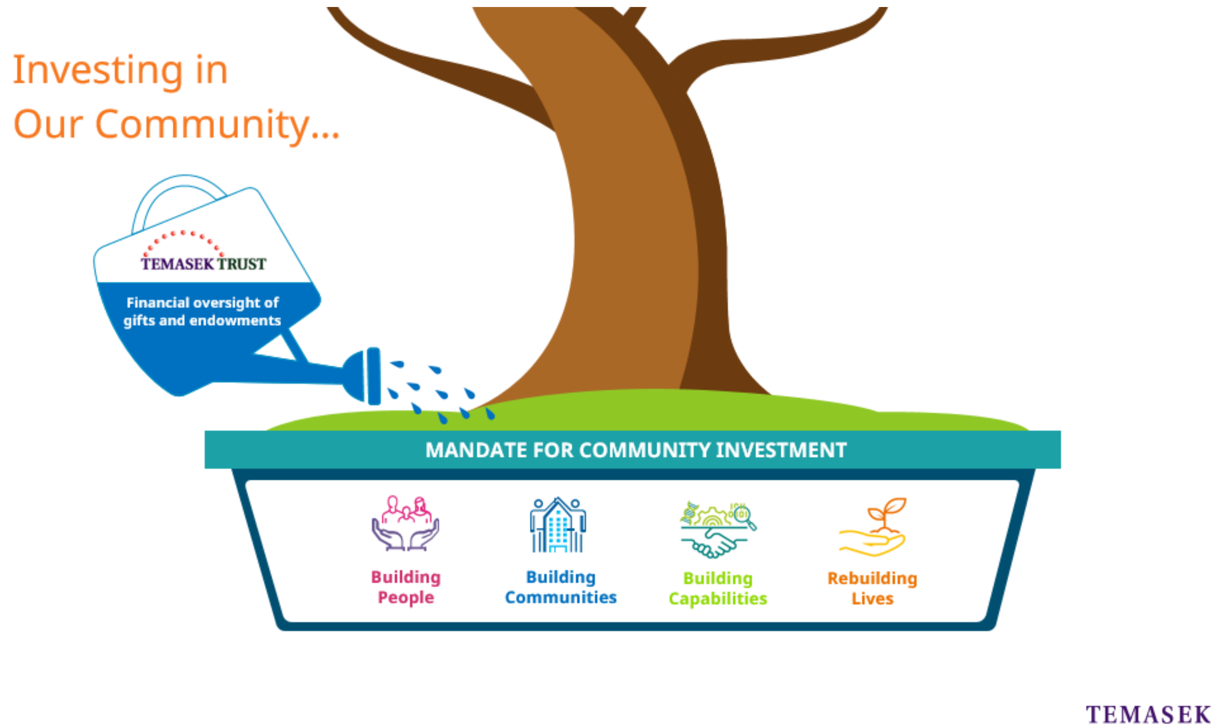
This concludes my brief outlook for the year ahead.

Now, I would like to share how doing well as an investor enables us to do good for our communities.

Starting in 2003, we began setting aside a portion of our returns above our risk-adjusted cost of capital to contribute to the community.

This supports our endowments and Foundations.

These have always focused on providing beneficiaries with a hand-up, not a hand-out.



Our community mandate has four pillars.

The first is to build people up by instilling skills, knowledge, and mindsets, so as to improve their lives and circumstances.

Next is to build communities by promoting dialogue, understanding and building bonds.

We also build capabilities, by enabling research and innovation in fields such as science, technology and engineering.

And finally, it is to help communities, families and individuals rebuild their lives when they are affected by natural disasters and events beyond their control.

Temasek Trust has financial oversight and governance over the funds we allocate to these community initiatives.

We have gifted 18 endowments, managed by six Temasek Foundations and Stewardship Asia Centre.

Over the last decade, these Foundations have touched over 800,000 lives in Singapore and Asia.

In the earlier video, you saw an example - the Playability initiative supported by Temasek Foundation Cares.

I would like to share two additional stories that give a sense of the work done by the Foundations.

Upskilling Master Builders and Local Trainers

In partnership with Nanyang Technological University

Thailand is the latest to benefit from the **Wall-strengthening for Seismic Resistance Training Programme**

Communities often take a long time to recover from natural disasters, which cause extensive damage and disruption. Earthquakes are a prime example.

Singapore's Nanyang Technological University together with Temasek Foundation International has developed programmes to increase the seismic resistance of buildings in earthquake-prone regions in Asia.

Master builders and trainers learn techniques and methods to reinforce buildings in their local communities.

For example, six reinforced schools in Nepal withstood the April 2015 earthquake and were used as temporary shelters for about 500 people.

Since 2008, programmes have been conducted in communities across China, India, Indonesia, Nepal, the Philippines, and most recently, Thailand.

Learning is Fun and Exciting, also known as LIFE, is a programme that instills character-building values in a fun way.

It was created by Temasek Foundation Nurtures in partnership with Julia Gabriel Education and The Alpha Mind, and has been used at Big Heart Student Care and YMCA of Singapore.

The idea is to develop values-based tools for student care centres, who provide after school care for children.

The programme rolled out in April 2018, which has also reached about 500 children. Trainers have watched the children grow more self-aware of their behaviour and feelings.

One participant, Xiu Qian, who is ten years old said “I’ve really learned how to face challenges and not give up. LIFE has taught me how to encourage my classmates so we can support each other better.”

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In conclusion, let me summarise the key points from today.

We ended the year with a net portfolio value exceeding 300 billion dollars for the first time and delivered wealth added of 14 billion dollars.

We are reshaping our portfolio by focusing on long term trends and on the companies that are benefitting from them. Our disciplined approach to investing will continue to ensure portfolio and balance sheet resilience.

We expect global growth to moderate, and we see the probability of risks increasing. These include geopolitical and trade tensions, as well as monetary and financial stresses in important economies.

As always, we are guided by our charter -- we are committed to do well as an investor, determined to do right as an institution and inspired to do good as a steward.

Thank you!


Getting
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