Temasek Holdings has shown itself capable of picking companies and savvy investments. Can it do likewise for its biggest challenge which is succession planning: pick leaders?

Temasek’s next challenge: Succession

BY AARON LOW

EYE ON THE ECONOMY

B Y MOST accounts, Singapore investment firm Temasek Holdings, which turns 40 next year, has just enjoyed a bumper year.

Buoyed by a strong showing on equity markets, the value of its portfolio rose to a record high of $220 billion at March 31 reported last Thursday. This was an 8.6 per cent increase over last year’s $202 billion.

Total shareholder returns – a measure of how hard investment funds have worked – was 8.8 per cent, nearly double the 4.6 per cent pace of the previous year.

The net profit for the entire stable of Temasek’s companies also stood at an impressive $11 billion, unchanged from a year earlier.

But the sparkling performance belies two key challenges for the long term. One is whether Temasek can continue to notch up the kind of world-beating returns recorded for the past 30 years. The other is leadership and that of succession planning: Who is ready to take over from chief executive Ho Ching?

Seeking alpha

LIKE all large investors, Temasek will find it increasingly difficult to get that extra bit of yield on its investments.

For one thing, the bigger the institution, the more difficult it will be to generate high returns, notes Singapore Management University finance professor Melyn Too.

“The challenge is for Temasek to maintain its stellar performance going forward. Research on hedge funds and private equity has shown that larger funds tend to underperform smaller funds,” he says.

“Large funds like Temasek typically cannot be as nimble as smaller funds and face a smaller investment opportunity set.”

Temasek has tried to address this issue by deploying some of its funds with smaller and more nimble institutions. It set up “Temasek’s Alternative Investment Portfolio” in 2000.

Temasek has also noted that it is getting harder to find alpha, which is at the heart of the performance of an investor. This is a result of the widening wage gap.

And of course no one can really predict how stock markets will perform in the next two decades. But what is clear is that the next few years will be challenging for any investor, given the problematic macro-environment.

As the financial world adjusts to the withdrawal of easy money and massive cash stimulus provided by major central banks, longer-term worries persist.

How will central banks reduce their bloated balance sheets without triggering another meltdown? Will this lead to hyperinflation, as many other investors would worry?

When asked about succession, Temasek’s senior management routinely trot out the well-quoted phrase that “succession planning is on-going”.

To complicate matters, chairman S. Dhamodaran is also likely to step down soon. It is no secret that Mr Dhamodaran, 75, is looking to retire, having chaired Temasek since 1990. Former Cabinet minister Lim Boon Heng is tipped to take over.

But Mr Lim is new, having joined Temasek’s board of directors only last year. Temasek is likely to want Ms Ho, appointed CEO in 2002, to continue for the next few years, to avoid having a new chairman and CEO at the same time.

But the longer Ms Ho stays on as chief executive, the harder it will be to find a suitable candidate to fill her shoes. Temasek has also insisted that its CEO search includes both internal and external candidates.

But after its experience with Ms Goodyear, might it not choose from within?

Temasek has for some years now been trying to deepen its bench strength, hiring top banks from around the world. It is notable that all of them hold only temporary roles.

For instance, its head of investments, Mr Chia Song Pew, is also co-head of China, while its president of Europe, Mr John Cryan, is head of portfolio strategy, Africa, and credit portfolio too.

One reading of this is that instead of having one sole successor, Temasek may actually build a team, or a council of wise men to lead the organization.

This is not unimaginable. GIC, for instance, has no CEO. It has a chairman, Mr Lim Song Guan, as overall group president.

But it also has a chief investment officer in Mr Lim Chang Kiat, who is supported by a strong cast of professionals, each dealing with a specific area of investment, from real estate to GIC’s management and private equity.

This approach has its merits.

With the world being as complex as it is, the organisation could benefit from having several top minds, with specialties in different areas, making joint decisions.

Temasek has shown that it can spot mega investment trends and, when convinced that it will reap benefits, act on them in a big way.

The challenge is for Temasek to do the same for its leadership and pick the next group of leaders to help steer the ship for the next 40 years.