

MANAGING *the* Portfolio

GIC's mission is to preserve and enhance the international purchasing power of the reserves placed under our management by the Government. The aim is to achieve good long-term returns above global inflation over the investment time horizon of 20 years.

The GIC Board decides on a policy portfolio which specifies the allocation of funds to eligible asset classes. GIC investment professionals seek to add value, and may deviate from the policy portfolio within pre-determined operating ranges, to achieve higher risk-adjusted returns.

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INTRODUCTION

The anchor of GIC's investment activities is the policy portfolio. It defines the asset classes that GIC invests in, and how it allocates funds to these asset classes. The purpose is to meet the investment return objective within the risk tolerance determined by the Government as owner of the funds.

The policy portfolio is the result of both quantitative analysis and judgment. Quantitative analysis of historical data generates an initial set of assumptions for key variables such as the expected long-term return and risk of various asset classes and their correlations with one another. These assumptions must then be evaluated qualitatively. They are adjusted for perceived structural changes in the global environment and capital market behaviour, taking into account operating constraints such as liquidity and market capacity, as well as the probability of extreme risk events. The portfolio is then stress-tested to ensure it complies with the risk parameters that have been set out.

The aim is to optimise distribution of investment funds to the asset classes. Operating ranges are specified to accommodate acceptable deviations arising from short and medium-term volatility and technical causes, and to give management some latitude to operate tactically in response to changes in market conditions.

MANAGING PERFORMANCE

The investment process starts with the design of the policy portfolio. Under the direction of the group chief investment officer, staff from the economics and investment strategy department undertake the analyses and groundwork. Their recommendations are presented to and discussed with the Board investment strategies committee. Once endorsed, these recommendations are submitted to the Board for approval. The policy portfolio is kept under review but is not changed frequently.

Managers are fully accountable for the performance of their portfolios. Their decisions must comply with prescribed guidelines and limits to ensure that they keep within the Investment Mandate. As an investment management company, we evaluate our performance in three ways: whether we achieve a reasonable rate of return above global inflation for the total portfolio; how each investment professional or team performs against specific market benchmarks or absolute return targets; and how our managers' results compare with those of their peers in the industry.

Implementation

GIC's investment professionals implement a diverse policy portfolio, translating asset class allocations into investments across public markets, real estate, private equity and infrastructure.

GIC manages a diversified portfolio in more than 40 countries. While we are open to investing in all countries outside Singapore, we do not invest in those the United Nations Security Council has imposed sanctions against. We also exercise ownership rights in the investments, where appropriate, to protect the financial interests of the assets under our management.

Public Markets

GIC invests in publicly-traded markets, including public equities in both developed and emerging markets, fixed income, natural resources, absolute return strategies (hedge funds), cash and currencies. We manage a well-diversified portfolio to produce superior risk-adjusted performance.

Equities and fixed income make up the bulk of the portfolio's investments in public markets. In equity investing, an established team of in-house research analysts and experienced portfolio managers has developed a comprehensive network of corporate and industry contacts. In managing fixed income investments, portfolio managers employ different investment strategies spanning yield curve analysis, credit, interest-rate duration and currency management, to add value to the portfolio.

In public markets, our investment decisions are based on an assessment of fundamentals consistent with the portfolio's long-term orientation.

Decentralised risk ownership, robust risk management and specialisation, with clear accountability at every level, characterise the investment process. The aim is to ensure that the risks taken are consistent with investment goals. A risk budgeting discipline allocates capital to investment professionals according to their track record of securing good returns from higher-risk investments. The budget is monitored continuously to ensure risk is properly diversified and managed.

We evaluate the performance of our investment professionals against relevant market benchmarks such as the MSCI and Barclays Capital Global Aggregate Bond indices.

Real Estate

GIC manages investments covering traditional private real estate (such as brick-and-mortar assets), public equities (such as real estate operating companies), real estate investment trusts and real estate-related debt instruments. The real estate assets span multiple property sectors, including office, retail, residential, industrial and hospitality.

The approach is governed by guidelines covering countries and regions, property asset types and sectors to ensure the portfolio meets both investment and risk objectives. Asset specific conditions and risks are among the factors that influence investment decisions. In this team-based approach, an appropriate range of real estate and capital market skills is applied to each investment.

Assets are actively managed to generate income and enhance market value through tenant management, market positioning, leasing and capital improvements.

Private Equity

GIC's private equity universe includes buyouts, venture capital and special situations such as mezzanine debt, distressed debt and secondary fund investments. We invest both through funds and directly into companies. The strategy is to identify and invest with leading private equity and venture capital funds globally, and grow with them in the long term. The direct investment programme focuses on taking minority equity positions as well as providing mezzanine financing in buyouts.

The investment teams add value to the boards and management of the investee companies by providing advice and access to a global network of business links.

Infrastructure

For the infrastructure portfolio, GIC's interests include user demand assets such as airports, seaports and highways, regulated assets such as those in water and power distribution, and competitive assets such as power plants. Our primary strategy is to invest directly in operating assets with a high degree of cash flow visibility and which provide a hedge against inflation. These include mature, low to moderate risk assets in developed markets, complemented by investments with higher growth potential in developing markets.

External Managers

We invest in a variety of funds managed by external fund management institutions, including real estate funds, private equity funds, bond funds, index funds and hedge funds. In addition to the portfolios managed within GIC, we place out discretionary mandates to external fund managers in a wide range of asset classes such as global fixed income and global equities. Some external managers are chosen for their ability to exploit investment opportunities beyond GIC's current skill sets and to complement our internal management capability.

While external managers are responsible for their mandates, GIC remains fully accountable for the overall performance of the portfolio. We continuously assess them relative to expected returns, risks and guidelines.

MANAGING RISK

Identifying and managing risk is a clear and integral part of management responsibility at all levels in GIC. The risk management framework sets the accountability and responsibility parameters for risk-taking. In addition to the Board and its risk committee, different bodies and groups are specifically charged with the task of identifying, analysing, monitoring, reporting and on-the-ground managing of risks.

Our approach to risk management is three-pronged: managing portfolio risk to ensure appropriate and efficient risk-taking; managing process risk so that investment decisions are implemented well; and managing people risk.

Managing Portfolio Risk

The Board approves the operating bands for asset classes within risk parameters specified by the Government. The operating bands are aimed at containing portfolio volatility that may arise from policy portfolio deviations, tactical decisions and market movements. A group-wide investment authorisation framework ensures that GIC invests within the policy portfolio and operating bands.

The risk and performance management department independently sets and monitors performance and risk review thresholds to ensure that risk is properly diversified and managed. Information systems are utilised to monitor and evaluate risk criteria, relevant trading limits and investment guidelines within each managed portfolio. These systems allow for both pre-trade and post-trade compliance checking. Portfolio managers and senior management use performance and risk attribution tools to derive timely feedback. Stress tests are conducted on a variety of scenarios to determine how potential changes in market conditions or the occurrence

of risk events may impact the portfolio. Investment and operations teams also work closely with the legal and compliance department to manage legal and regulatory compliance risks arising from the group's investment activities.

GIC adopts a risk budgeting discipline for public market asset classes to construct an efficient portfolio of active investment strategies. Risk capital is allocated to investment strategies according to the track records of the portfolio managers and their potential to generate risk-adjusted returns.

For private market asset classes, investment teams conduct extensive due diligence covering the market, physical, legal and financial aspects of the transactions, the selection of investment partners, holding structures to be used, and exit strategies. They manage the measurement and operational risks associated with the performance of private market assets via operational and financial controls.

Managing Process Risk

All investment and operations staff are required to identify, evaluate, manage and report risks in their own areas of responsibility, and comply with established risk policies, guidelines, limits and procedures.

New investment products or strategies are subject to a risk identification and assessment process conducted by a cross-functional group. This ensures that risks associated with the new product or activity are identified and analysed prior to the undertaking of the new investment. Part of this process is ensuring that the required people and infrastructure such as systems, procedures and controls, are in place to manage these risks.

GIC adopts a strong control orientation in managing counterparty credit risks, trading only with financially sound and reputable counterparties. A stringent selection and approval process is in place to appoint counterparties. We monitor our counterparty exposure against set limits and report counterparty profiles to senior management regularly. Other measures to mitigate credit risk include using netting agreements and programmes requiring counterparties to pledge collateral.

We continuously monitor a set of key risk indicators pertinent to our business, in order to manage risk of loss resulting from possible slippages in GIC's operations. Indicators such as late transaction processing, late report releases, stale prices and system downtime highlight potential risk areas to be addressed in a timely manner.

Our business continuity plan is tested and reviewed regularly to ensure that our procedures and infrastructure can support operations should there be a business disruption. This enhances corporate resilience and safeguards the group's operations.

Throughout the year, internal and external auditors scrutinize all operations and business processes. The deficiencies identified are required to be addressed within agreed time frames and reported to senior management.

Managing People Risk

Consistent with our long-term orientation, GIC's remuneration policies and practices support and reinforce a culture of prudence in risk-taking, and recognise and reward our people on the basis of sustainable results.

We require our staff to observe GIC's code of ethics, maintain exemplary conduct, and comply with laws and regulations, including prohibitions against insider trading and other unlawful market conduct. These are among the guidelines set out in our compliance manual maintained by the legal and compliance department. Staff must protect confidential information and handle material non-public information with due care. The manual also states policies relating to the management of conflicts of interest, gifts and entertainment, copyright rules, personal investments and whistle-blowing.

We provide regular training to all staff to keep them current with compliance requirements. Staff also receive training on exchange regulations relevant to their responsibilities.

People are at the heart of our business. Our PRIME values are the compass in our management of the people, process and portfolio. This is the reason these values are part of our staff appraisals.