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FUNDAMENTALS

# Investing for the Long Term: GIC's Three Guideposts

10 JAN 2020





*This article adapts remarks delivered by GIC CEO Lim Chow Kiat at GIC Insights 2019. GIC Insights is our annual flagship event that gathers a select group of prominent business leaders to deliberate over long-term issues pertinent to the international business and investment community.*

## FINDING THE MIDDLE GROUND

We are at a turning point. Witness the profound challenges spanning geographies, businesses and capital markets. Starkly, the geopolitical mood has soured. We have seen rising populism, societal divisions, trade protectionism and decline in the ability of governments and markets to deliver broad-based prosperity<sup>1</sup>. Greater income inequality, which has reached a 50-year high in OECD<sup>2</sup> countries, is said to be responsible. In particular, the stagnation of real income in developed Western economies in the last 3 decades has ushered in voter strife, hollowing out conventional mainstream politics. This, coupled with the corresponding gains by many open trading economies such as those in Asia, has raised geopolitical tensions. Globalisation has borne much of the blame, even though these developments reflect more fundamentally domestic policy failures to cope with technological and economic changes. Is there a Middle Ground that we can settle on? How much can we count

on the high inter-dependency in this globalized world?

In these factious times, investors are hard put to find their footing. They face rising uncertainty but falling returns. By some measures<sup>3</sup>, uncertainty about economic prospects is currently highest on record. Further, policy makers seem to have limited ammunition to reflate economies. Interest rates are already at depressed levels. Negative yielding bonds are no longer a market oddity. As at mid-August 2019 they accounted for 1/3 of the global tradable bond universe<sup>4</sup> or a valuation of US\$17 trillion. Does this development, with investors essentially paying a fee for holding less risky assets, portend a deep deflationary spell for the world economy? Yet, faced with potential opportunity costs of missing out on positive returns, investors have also been moving into more risky assets. It is a quandary.

Nevertheless, amidst the spate of worrying developments there are also new investment

<sup>1</sup> Edelman Trust Barometer 2019; McKinsey Report June 2019: *Inequality: A persisting challenge and its implications*

<sup>2</sup> OECD Social Inequality Database

<sup>3</sup> WUI (World Uncertainty Index) was developed by Hites Ahir (MF), Nicholas Bloom (Stanford University) and Davide Furceri (International Monetary Fund). They construct quarterly indices of economic uncertainty for 143 countries from 1996 onwards using frequency counts of “uncertainty” (and its variants) in the quarterly Economist Intelligence Unit (EIU) country reports. The EIU reports discuss major political and economic developments in each country, along with analysis and forecasts of political, policy and economic conditions. They are created by country-specific teams of analysts and a central EIU editorial team. WUI as at 2Q 2019 based on GDP weighted average from 1996.

<sup>4</sup> Calculated as a % of total outstanding bonds in Bloomberg Barclays Global Agg Index at 15/8/2019

opportunities. Technology, for one, offers immense investment possibilities as the pace of innovation here is breathtaking. Breakthroughs in technologies like artificial intelligence (AI), 5G, blockchain, internet-of-things (IoT) and even those that are not yet known today will be disruptive but will also create new industries, satisfy unmet needs and solve the problems of tomorrow. This is also where we already find the middle ground, between technology and traditional companies. The convergence of their business models are producing many interesting investment opportunities in the overlaps.

How will GIC seek to deliver on its mission in this complex environment?

## GIC'S APPROACH

As Singapore's sovereign wealth fund, GIC's singular mandate is to preserve and enhance the international purchasing power of the reserves under our management over the long term. As we pursue our mission, we also aspire, through our long-term capital and partnerships, to contribute to the communities that we invest in all over the world. Our capital and expertise help to build enterprises and infrastructure in these communities, enhancing their well-being.

Our approach to attaining these goals are shaped by three guideposts.

Our first guidepost is the maxim **Know Thyself**. The maxim calls on us to keep our sights resolutely on our mandate, organizational values, strengths and weaknesses. Our mandate to preserve and enhance the real value of the national reserves translates to giving priority to prudence. We emphasise diversification, robustness in constructing our portfolio and the discipline to modulate our risk exposure as valuations are appraised to be unattractive.

Our second guidepost is to **Focus on the Long Term**. The long-term perspective is integral to who we are and how we invest. When GIC was set up in 1981 it was with the explicit instruction to invest for long-term returns for the benefit of both current and future Singaporeans. We invest with a mindset of looking over cycles to assess value

and to benefit from harvesting long-term risk premia, capitalising on short-term dislocations, and building lasting relationships with our stakeholders and partners. Importantly, this mindset impels us to look beyond short-term headlines and to position for durable trends such as the rise of the middle-class in Asia, the innovation engine of the US and the sustainability leadership of Europe.

Our third guidepost is **Building Capabilities and Partnerships**. When faced with uncertainties, it is advisable to have optionality. Tactically, that may be raising some cash as dry powder. The more durable efforts are:

- ♦ **Building capabilities**, which means constantly working on getting better at what we do, innovating and learning. Especially in these times of challenging broad market returns, we need good expertise in pro-active sourcing of investments, due diligence and ongoing asset management capabilities. In recent years, we have made good progress in various domains, increasingly becoming a choice solution provider for many investees and partners. There is much more to do, and we will continue to work hard on this.
- ♦ **Building partnerships**, which means deepening, expanding our networks of like-minded partners and investee companies. The journey ahead will be a difficult one but we hope that with our trusted network of partners, we can create more win-win opportunities, and by doing so, contribute to the wider communities that we invest in over the long term.