Keynote Address by GIC Chairman Lee Hsien Loong at GIC Insights 2024

GIC and the US: A trusted and enduring relationship

CEO of GIC, Mr Lim Chow Kiat;
Distinguished guests, ladies and gentlemen

A very good evening to everybody.

Introduction

I am delighted to join you this evening for GIC Insights gala dinner. This year's edition of Insights is a special one. It is held here in New York, to mark 40 years of GIC being a major investor in the United States. In these four decades, GIC and the US have built a strong, productive, and mutually beneficial partnership. GIC participated fully in the American market, with American partners and American talent by our side. Today, over one-third of GIC's global portfolio is here in the US. We have offices in New York and San Francisco. We have hundreds of business partners based here in the US.

The US is therefore a very big part of the GIC story. Tonight, let me tell you a little bit more about this story.

GIC's beginnings

By the early 1980s, the Singapore economy was growing rapidly. The Government had been frugal, and the country had accumulated a modest sum of reserves.

Traditionally, it is the central bank's job to manage such reserves. These would mainly be held in liquid assets – money markets, sovereign bonds, gold. The investment mandate would have been to ensure sufficient liquidity in Singapore's financial system, and enough resources to manage the exchange rate. But Singapore had built up a little more than what its central bank needed. The Government therefore started to think about how best to invest these funds for the long term, to preserve and hopefully to grow them over time, for use on some rainy day.

And thus, GIC was born in 1981. It was separate from the Monetary Authority of Singapore and its central banking responsibilities. It had a focussed mindset, a dedicated team, and a distinct organisational ethos. And it was given a clear mandate: to invest the government's financial reserves externally, with a view to maximising long-term, risk-adjusted, real returns.

GIC was set up as a company owned by the Singapore Government, rather than as a government department or statutory board. This way, GIC could manage its portfolio professionally, free from political influence. The company could set personnel and remuneration policies aligned with market practice, to offer competitive terms and attract capable talent. The management team could make their own investment decisions, based purely on commercial considerations, to achieve their target long-term returns on GIC's invested funds.

At the time, GIC was sui generis – one of a kind. It was the first non-commodity based sovereign wealth fund in the world. Since then, many other countries have set up similar sovereign wealth funds.

GIC and the US

GIC recognised right from the beginning that, to fulfil its mission, it needed to get into the US markets. The US was the biggest and most advanced economy in the world, and then accounted for about a quarter of the world economy. It was at the forefront of global entrepreneurship and innovation. It also championed free flows of trade and investment, and in fact had one of the most open economies among the developed countries. Its capital markets welcomed investments and economic exchange with almost every other country, less the Soviet Bloc. It was the largest single-source of FDI, as well as the single largest recipient of FDI, in the world. Therefore, the US had to be a central part of GIC's portfolio and operations.

But to invest in the US, GIC had first to understand how American markets worked, and how America worked. We needed a presence on the ground. That was why when our founding managing director, Dr Yong Pung How, was setting up the company in 1981, he visited New York City. He came in search of financial talent to help jump-start the company and lead our investments into American markets. Dr Yong recruited three American fund managers – Leo Bailey (who was an authority on US equities), Theodore Garhart (a US real estate investment expert), and Douglas Salmond (a Japanese equities expert). Their expert knowledge and extensive networks helped tremendously in getting GIC started. Three years later, we opened our first international office here in New York City. Using this office as our base, we invested steadily in the US markets, gained experience, and grew our portfolio. Today, New York is GIC's largest office outside of Singapore. Which is another reason why we are celebrating our anniversary here.

Growing our US portfolio

The way GIC invested also evolved over time. We started off cautiously, even gingerly, with most of the portfolio comprising sovereign bonds, some equities, and just a bit of real estate. As a young organisation, GIC was understandably risk averse, and apprehensive about risking and losing Singapore's hard-earned money. The more so as the portfolio had previously been invested in practically risk-free assets, and GIC had not yet developed a sophisticated sense of the risks which the portfolio would now be exposed to, or of the risks which the portfolio ought to take. But with time and experience, we understood more clearly the trade-off between avoiding excessive risks and maximising long-term returns. GIC learnt how to measure and manage the risks it took, and also their expected returns. GIC worked with its client to define the amount of risk which the portfolio should accept, and worked within this risk budget to maximise expected long-term returns.

As our portfolio and our capabilities grew, the composition of our investments gradually shifted. We began to apply modern portfolio theory, increasing the proportion of equities relative to bonds and cash. As US markets evolved and new asset types and investment instruments were invented and popularised, we updated our investment strategies. We did our due diligence to understand the trends, and emerging risks. If we judged the new investment classes sound and prudent, we committed some funds. But if we did not understand the new types of investments, or if we felt that they were overhyped, we would sit out that dance. For example, GIC first ventured into private equity back in 1982, when it was a relatively new and niche investment class. At first, we only committed small amounts, through funds managed by other fund managers. Over time, we built up our expertise and established valuable partnerships with then-fledgling PE firms – many of them now global names. As the PE landscape broadened, we steadily grew our exposure both in absolute terms, and as a proportion of the portfolio. In time, GIC became one of largest and most established PE investors in the industry. We also invested in successive waves of new technology. We started with listed technology companies, and later participated in venture capital funds. We witnessed the American economy's amazing ability to direct capital and talent into promising areas of growth, delivering new technological breakthroughs every so often. And so we did our best to prepare, and participate in successive waves of new technology and market interest – whether it was the proliferation of the personal computer and the Internet in the 1990s, or the smartphone in the 2000s, or cloud computing. Now with Artificial Intelligence, like everyone else we are studying how best to catch the wave, yet not be carried away by excessive exuberance. GIC has also gone into infrastructure investments, and is now closely tracking the private credit markets. So, starting from very bond-heavy beginnings, we progressively diversified our portfolio, to improve expected returns while managing risk and volatility. Today, we have a majority equity portfolio that we continue to actively manage.

We have stayed invested in the US through thick and thin, because of its vital role in the world economy. And we continue to have faith in the US economy's vibrance, dynamism, and sheer resilience.

Staying invested through tough times

GIC's decades of investing in US markets have not always been smooth sailing. We weathered many peaks and troughs, and stayed invested in rough times. We grew together during the booms, and remained a steadfast and responsible investor during more trying and volatile periods. The first big test came just three years after our New York Office opened – "Black Monday" on 19th October 1987. That stock market crash was severe and unexpected. The Dow Jones Industrial Average (DJIA) experienced its largest single-day percentage decline ever, a record which still stands today – 22.6%. GIC was a young startup then. Black Monday tested our mettle, but we had conviction in the long-term potential of the US markets, and did not liquidate our positions. We weathered the dot-com boom and the bust cycle similarly too. In the 2008 Global Financial Crisis, we de-risked a little, but we stayed substantially invested in the US. In fact, GIC contributed to critical capital raises, and did our bit to help stabilise the broader financial system. After considerable uncertainty and many anxious moments, the global economy stabilised, and US equity markets more than recovered. And so, thankfully, did the GIC portfolio. More recently, the COVID-19 pandemic threw global markets into turmoil. Again, we sat tight and weathered the storm. GIC capital invested in portfolio companies also supported the development of healthcare solutions – research trials for COVID-19 vaccines, and the provision of critical healthcare.

GIC has been able to do this because we are able to take a long-term view. We know that markets go through cycles – that is an unavoidable reality, which we must accept and ride through with some equanimity, if we are to maximise long-term returns. This is a very different mindset from other market players, many of whom have shorter time horizons. They too, aim to invest in something promising, but with a clear exit strategy defined upfront, to liquidate and distribute the profits by a target sunset date. For GIC, there is no predetermined end date. We can hunker down and stay invested through boom-and-bust cycles, because GIC's investment horizon is not measured in just years or even decades, but by fundamentals and intrinsic value. This ability to hold is a great source of strength. Not just for GIC itself, but also for the portfolio companies that it invests in. Of course, there will be times when investments turn sour, but we take it in our stride. GIC, and importantly its client, understands that there is no upside without risk. If none of your investments ever go bad, you are probably being too cautious. At the same time, when GIC's investments do well, we try our best to keep our heads and not get carried away.

GIC's total portfolio has grown steadily and done well – achieving an average annual return of about 4% over the past 20 years. This is over and above the global inflation rate, because it is a real rate of return. We have stayed here in the US throughout 40 very successful years of partnership, whether the market moved up, down, or sideways. We were there before the book "Dow at 36,000" was written which was 25 years ago, and now, we are still here, and the Dow is about to be 44,000. We have greatly benefited from the power of long-term compounding. So I am confident that GIC will continue to be a patient investor in the US for a long time to come.

Looking to the future

At the same time, we are mindful that the international environment has become much more challenging. Rivalries and tensions between the major powers are intensifying. The zeitgeist has changed, and not just in the US. Considerations of national security, resilience, and staying ahead of competitors and rivals have become increasingly important. Economic considerations are becoming secondary. Political support for free trade, multilateralism, and globalisation has evaporated; protectionism has become respectable again. There is much greater wariness over both inbound and outbound investments. The US elections have just taken place, the results are clear, but analysts are still busy examining the entrails to divine what lies ahead.

In this darker, more complex climate, GIC must still pursue its mission to invest, and to protect and grow its portfolio. Estimating risk-adjusted returns will be much harder. We are no longer just calculating stochastic, quantitative risks that we can model and estimate, but also assessing uncertainties that are harder to predict, and scenarios with unquantifiable probabilities and unforeseeable consequences. We have to weigh the implications of these different possibilities for our portfolio, to make sound financial decisions. Will normal cycles of recession and recovery persist, or will they be disrupted by strategic, political, or security considerations and developments? Will markets continue to function, or will geopolitical events shut down certain businesses while boosting others? Will GIC need to hold a stock of physical gold, and if so, where? A fund manager like GIC now has to deal with a whole different set of challenges altogether.

Yet even in this environment, GIC still believes in the long-term potential of the US economy. The US continues to be the most major, dynamic and resilient economy in the world. It remains the destination of choice for talented and enterprising people from all over the globe. Its capital markets remain the most innovative and the most open in the world. GIC continues to see investment opportunities, especially in emerging areas like climate technology and sustainability. Besides helping to decarbonise the global economy, such investments can also benefit local communities. Two of our portfolio companies illustrate this point. One is building a battery plant in West Virginia, on the site of an old steel mill, to manufacture iron-air batteries that provide long duration energy storage. The plant will create hundreds of jobs in the local community. Another firm is working with school districts across the US to electrify school transportation. It recently announced the first 100% electric school bus fleet in the US in Oakland, California. These are just a few of the many opportunities that the US offers. And therefore, we fully intend to continue investing in the US, and maintaining American assets as a substantial part of our overall portfolio. We have every confidence that this is the correct choice for a fund taking a long-term perspective.

Conclusion

Over 40 years, our partnership with the US has grown from strength to strength. For this, we are grateful to our US partners and fund managers, many of whom we have enjoyed long relationships with, and quite a few of whom are here with us in this room tonight. The mutual trust and confidence that we established enabled us to prosper together. I am happy to have all of you with us to celebrate this anniversary together. Thank you very much for your support all these years!

In a world where zero-sum mindsets are growing more prevalent, I am very glad to have investor conferences like the one we held today. Where we can candidly exchange views on shared opportunities and dangers. And all can work towards creating wealth and prosperity in a mutually beneficial way.

Thank you all once again for your trust and partnership with GIC. We look forward to continuing this journey with you for many decades to come.

Thank you very much.