



**SPEECH BY DR TONY TAN KENG YAM
DEPUTY CHAIRMAN AND EXECUTIVE DIRECTOR
AT GIC STAFF CONFERENCE, 21 APRIL 2008, 1100 HRS,
SWISSOTEL THE STAMFORD**

May I first welcome all of you to this inaugural GIC Staff Conference. GIC is now a large organisation with almost 1,000 staff. It is timely for us to have a Staff Conference once a year to outline our priorities and to bring our people closer together.

2 Let me start off with some words on the economic environment.

The Economic Environment

3 In July last year, I warned that there were black clouds on the economic horizon, which could derail the “Goldilocks economy” which had lifted capital markets since 2002. The black clouds include credit tightening arising from the United States sub-prime mortgage crisis, rising inflation as a result of high oil prices and possibility of exogenous shocks like a terrorist attack. We were concerned that financial risks were growing dangerously in the capital markets. Excessive leverage in both the financial and household sectors had led to asset over-valuation. Risk premiums had been driven to extremely low levels in many credit and housing markets.

4 The ensuing unravelling in various asset markets was rapid and steep. The US sub-prime mortgage crisis triggered a major de-leveraging of the US financial and banking system leading to sharp sell-offs in equity and credit markets. The credit crunch, house price deflation and rising oil price worsened sharply in the first quarter of 2008 causing business and consumer confidence in the United States to deteriorate to recessionary levels. The financial contagion has now spread beyond US shores, increasing the likelihood of a global financial crisis and recession.

5 This led the US Administration and Congress to undertake a strong fiscal stimulus to bolster the economy. The US Federal Reserve has also taken radical measures to alleviate the contraction of liquidity in the financial markets. Just last month, the US Fed took the unprecedented step of taking over US\$30 billion worth of credit risk onto its own balance sheet to facilitate the take over of Bear Stearns by J P Morgan Chase. This was to prevent a seizing up of the interbank and credit markets which could result from a massive avalanche of counterparty defaults.

6 Fortunately, GIC was well prepared as we had moved to a more conservative posture in our portfolio by liquidating a portion of our equity holdings in the third quarter of 2007 and moving into cash, a measure which we had not taken for quite some time. This provided us the liquidity to make substantial investments in UBS and Citicorp when

these opportunities arose in December 2007 and January 2008. We regard our investments in UBS and Citicorp as long-term investments which will give us good returns when markets stabilise and economic conditions return to more normal levels.

7 Colleagues, we are now entering a period of extreme uncertainty in the world economy and the global financial markets. As banks continue to de-leverage, cutting down on their lending activities and causing contraction in credit supply, the prospects for the US economy and possibly even the world economy are fraught with considerable downside risks. We could be facing a recession which is longer, deeper and wider than any recession that we have encountered in the last thirty years. The economic downturn can be mitigated if decisive and timely actions are taken by policy makers in the United States and elsewhere. If policy makers respond strongly and appropriately, investment markets and sentiments can turn around sharply.

8 However, if such actions by the authorities are not taken within the next three to four months, it will be left to the market forces of supply and demand to stabilise the US housing market before we can see the light at the end of the tunnel. This will be a considerably more painful and long drawn process.

9 What is clear is that the financial and investment markets will be extremely nervous and volatile over the next one to two years. Instead of the rising tide which had broadly benefited financial and investment markets for the last ten to twenty years, we are now facing choppy seas which could engulf the broader economy globally. Policy makers, business managers and investors will require fortitude and nimbleness to navigate safely through the turbulence.

Group Committees

10 GIC runs a tight ship, minimising risks where possible and taking advantage of our strengths as a long-term investor to manage one portfolio with good coordination among our various investment activities.

11 Our investment operations are presently carried out through three subsidiaries: GIC Asset Management which looks after public market assets, GIC Special Investments which looks after private equity and infrastructure investments and GIC Real Estate which is responsible for our real estate investments. Such a structure has provided us with the flexibility and responsiveness to make investment decisions which we need to act quickly and timely in the face of rapidly changing market circumstances.

12 Further to the management appointments which I announced in July 2007, we have also set up three Group Committees to oversee the business operations, investments and risks of the entire GIC Group. These are the Group Management Committee, the Group Investment Committee and the Group Risk Committee.

13 The Group Management Committee is chaired by our Group Managing Director Mr Lim Siong Guan. It is a platform to address and discuss organisational, business, and personnel issues of the GIC group.

14 The Group Investment Committee is chaired by our Group Chief Investment Officer Mr Ng Kok Song. Its responsibility is to develop and implement asset allocation

policies and investment strategies at the group level. This Committee also reviews the risk and performance of the various asset classes on a regular basis.

15 The Group Risk Committee is chaired by our Chief Risk Officer Dr Sung Cheng Chih. It provides oversight and guidance for the development and implementation of risk management policies and practices for the entire Group.

16 The three Group Committees as well as our three asset management subsidiaries report to the Group Executive Committee, which I chair, and which deliberates and decides on major investment and risk policy issues before submission to relevant Board Committees and the GIC Board. The Group Executive Committee also reviews and approves major personnel and business policies which apply to the entire GIC Group.

17 This management structure enables GIC to have the group-wide oversight on our business operations, investments and risks - while giving sufficient autonomy to our investment subsidiaries so that they can respond in a timely fashion to changes in investment circumstances.

People

18 Management structures by themselves will not ensure that GIC succeeds in its mission to look after the reserves of the Singapore Government. The most important factor which will determine the success of GIC is our people. GIC's creditable performance over the last twenty seven years since our formation in 1981 would not have been possible without the dedication and hard work that you have all put in. To bring our people closer together, we have now published our very own 'One GIC' Yearbook, to commemorate the last financial year. This Yearbook captures the spirit of the GIC family. It is very heartening for me to see the many accomplishments in not only professional but also the personal lives of our staff. This Yearbook is about our people and how we have seen the year through together.

19 In this connection, it is appropriate for us on this occasion to publicly thank a group of our GIC colleagues who have served GIC well for many years. I will be presenting these staff members their Long Service Awards and tokens of appreciation and I ask all of you later to join me in thanking them for their services.

20 Colleagues, Ladies and Gentlemen, let me close by saying that the next few years may well be among the most challenging years for GIC since our establishment in 1981. We have to brace ourselves for trying and difficult times but we are well prepared. Working together as a team and with the right policies, we will successfully navigate the treacherous currents which lie ahead with sufficient ballast to be able to take advantage of opportunities as they arise. When this turbulent period is over, I am confident that GIC will emerge stronger and more resilient and take our place as one of the most competent and respected investment organisations in the world.
