



THINKSPACE

PERSPECTIVES ON

In Conversation With Lim Chow Kiat

23 APR 2021



GIC's CEO Lim Chow Kiat recently joined FCLTGlobal in an episode of their podcast series, Going Long. Chow Kiat has been an active supporter and member of FCLTGlobal's Board of Directors. In this episode hosted by FCLTGlobal's CEO Sarah Williamson, Chow Kiat discusses GIC's long-term investment strategy and value-adding approach, the interchangeability of sustainability and long-termism, and the risks and opportunities he sees in the post-pandemic world. This transcript has been edited from his podcast for length.

CAN YOU TELL US MORE ABOUT GIC'S ORIGIN AND PURPOSE?

GIC was set up in 1981 by the Singapore government, and this year marks our 40th anniversary, a big milestone for us. We were set up as a sovereign wealth fund 40 years ago by our founding fathers, Mr. Lee Kuan Yew and Dr. Goh Keng Swee, with a very clear and bold objective – to grow the long-term value of our reserves.

Essentially, GIC serves three main functions. First, it's a *rainy day fund* to provide the financial resources needed by the country during times of crisis. Second, it's a *stability fund* as the reserves we manage help to ensure confidence in Singapore's financial system. Third, it's an *endowment fund* as part of the returns from the reserves, which are managed by GIC, Temasek and the Monetary Authority of Singapore, can be drawn down to help finance part of the annual government budget.

So GIC continues to invest globally, outside of Singapore, in a diversified way across different asset classes.

GIC IS KNOWN FOR BEING A QUINTESSENTIAL LONG-TERM ORGANIZATION – HOW DOES LONG-TERM INVESTING FACTOR INTO YOUR OVERALL STRATEGY?

GIC was set up with the intention to invest our money over a long period of time to generate long-term returns. In fact, long-termism is our national ethos in Singapore – we like to think that when we embark on an effort, we will take it on with a long-term mindset and make it sustainable.

The nature of the funds which we manage is ultimately for the benefit of Singaporeans and we can even think of GIC as an intergenerational

fund. We quite often hear that pension funds are long term in nature because the money is needed for retirement. But in GIC's case, our funds are in some ways even longer in nature because they go beyond the current generation.

LONG-TERM INVESTING OFTEN ENTAILS INVESTING IN SOMETHING THAT WILL ONLY PAY OFF OVER A NUMBER OF YEARS. HOW DOES GIC MANAGE OR PRACTISE LONG-TERM INVESTING?

Having a long-term mindset is key to our investing approach and strategy. To do long-term investing well, you need an entire ecosystem to function consistently.

First is your *investment philosophy*. This should be the starting point for any investor. In GIC's case, our philosophy focuses on the fundamental value of assets. We do a lot of work to determine the fundamental value of an asset, and then we also add value to the assets once we have acquired it.

Next is *governance*. It is critical that our work and objectives are aligned with our stakeholders'. We stay consistent with the mindset that our Client and Board of Directors have, which is to look at the policies, results, and activities of GIC through a long-term lens.

Then we have *mandate clarity* on the emphasis on long-term outcomes. This is evident in the focus of our primary performance measure as a 20-year rolling real rate of return, which is a kind of performance measure that you don't often see in the marketplace. Our 20-year rolling return is what gets the most attention from our stakeholders, management and staff.

The fourth is *organizational practices* or what some would call culture. There is a lot of work

that goes into aligning all HR practices, including incentives and recruitment policies, to the idea that we want our employees to make decisions with a long-term mindset.

And finally, *communication*. We have to be careful in how we talk about our activities, results, and strategies. In the financial markets, we sometimes hear comments like “the long term is but a series of short terms”, but that is something that we do not agree with because the drivers of long-term and short-term outcomes are extremely different. At GIC, we put a lot of thought into how we communicate internally and externally. For example, when we show the performance of our portfolios for multiple time periods, we place particular emphasis on the longer-term horizon by starting with the 20-year or 10-year return rather than the last quarter or last six months. These small details are important because there is always the temptation and pressure to go short term, so we need to be consciously designing and practising long-termism in how we run the entire organization.

With this consistent ecosystem, our portfolio and investment strategy would then naturally look at drivers and value that are long term in nature. In fact, our performance has benefitted significantly from having a long-term mindset.

First, we benefit from the compounding of returns. One of our success formulas is to look for quality assets which compound over a long period of time, such that you are not required to constantly buy and sell to create returns. It isn't easy to find these assets, but with a long-term mindset, you are more able to access this smaller universe of quality assets.

This long-term mindset also allows us to *harvest the risk premium* from investing in illiquid assets which tend to give us a little extra return. Not all investors can do this, so if you have that kind of long-term horizon, make use of it.

The third is *countercyclical rebalancing*, which is quite a standard asset allocation practice, but in reality, only long-term investors can do that well.

Another is the ability to *take advantage of dislocations* that occur from time to time, either because investors are forced by or forced to sell due to short-term pressures or requirements. Long-term investors are then better positioned to do this.

Lastly, having a long-term mindset is really helpful for *building partnerships*. Partnerships require give and take, which you can only do over a long period of time. GIC's partnerships go as far back as 30-odd years and many of our business partners are highly successful today. But when we started with them, they were very small, as we were too, so we grew together. Partnerships are very important to GIC, and going through the ups and downs together over time really helped us build good relationships.

Being long term requires us to really understand the process, and the quality of the decision-making process is key. When we look at performance, we need to determine whether the short-term result is aligned with our long-term investment process. Hence, what we strive for is reasonable short-term results but definitely superior long-term results.

HOW DOES GIC ENGAGE WITH INVESTEE COMPANIES TO ADD VALUE TO YOUR INVESTMENTS OVER TIME?

Firstly, we need to understand who we are. We are a long-term investor who wants to own our assets for a long period of time, and thus we engage with companies in a constructive manner. Our teams meet with our investees regularly and let them know if there are opportunities to do better. If we have a larger stake in them or have expertise in relevant areas, we will meet them more often and provide suggestions. We also listen to them and seek to understand their strategy. As we invest through external managers, we get to understand the issues that different companies are facing as well. Ultimately, our objective is to help them be as successful as possible.

GIC also has some initiatives that directly add value to the companies' businesses. One example is the Bridge Forum, which involves connecting start-ups to incumbent companies or venture capitals that we invest in. By sharing our network, we have brought together more than 450 companies. This is the unique value that we try to add to the companies and partners that we invest with. For GIC, we also benefit from learning through the process, understanding new trends, and in some cases even investing in opportunities. Therefore, we feel that this is something really worthwhile and constructive for all sides.

AT FCLT, OUR MISSION IS TO REBALANCE THE CAPITAL MARKETS TO SUPPORT A LONG-TERM SUSTAINABLE ECONOMY. HOW IS GIC APPROACHING SUSTAINABILITY IN YOUR INVESTMENT STRATEGY?

Long-termism and sustainability are almost interchangeable, as what is long term tends to be sustainable, and what is sustainable will last for a long time. Thus, sustainability is naturally quite aligned to GIC's mandate. To incorporate sustainability into our operations, we adopt a simple framework that we refer to internally as ODE – offence, defence, and enterprise excellence.

Offence is about our efforts in finding opportunities. For sustainability, this is similar to impact investing, where you seek to do well and do good at the same time, with the hope of creating a positive outcome in the longer ESG dimension.

Defence is about our efforts to make sure our portfolio holdings do not face challenges in terms of ESG requirements. As much as possible, we actively help our investee companies to go through this transition. We are big believers and supporters of transition, but also recognise that the move from brown to green does not happen overnight. It requires concerted effort and time. Recently, GIC invested US\$2 billion in Duke Energy Indiana, a utility company in the US. One

key deciding factor was that our capital would help the company accelerate their transition plans towards renewable energy, as facilitated by its regulators. So this investment would be considered as a mix of offence and defence.

As for *Enterprise Excellence*, it is about making sure that our own operations are up to scratch. May it be procurement, our carbon footprint, or our recycling efforts, we make sure we live up to a good standard. In fact, we are very much on the way towards achieving carbon neutrality this year.

Having a long-term mandate helps because some of these sustainability efforts take time to produce results. Our stakeholders have the patience and also want us to not only do well but do good in the process too.

“LONG-TERMISM AND SUSTAINABILITY ARE ALMOST INTERCHANGEABLE, AS WHAT IS LONG TERM TENDS TO BE SUSTAINABLE, AND WHAT IS SUSTAINABLE WILL LAST FOR A LONG TIME. THUS, SUSTAINABILITY IS NATURALLY QUITE ALIGNED TO GIC'S MANDATE.”

COMING OUT OF THE PANDEMIC, WHAT ARE SOME LONG-TERM TRENDS AND OPPORTUNITIES THAT INVESTORS SHOULD BE MINDFUL OF?

As investors, we saw the pandemic as a huge disruption that changed many business models and accentuated some key trends.

One was *digitalisation* that was accelerated in a big way. Business models had to change and that itself produced many opportunities in new categories of services and goods that we'll most likely continue to see in our post-pandemic world.

The pandemic was also a huge wake-up call for countries to invest in *healthcare*. We are increasingly seeing the intersection of technology and healthcare, and new business models and innovation, which creates a lot of potential investment opportunities.

Then of course we have *sustainability*. The pandemic showed us the importance of being prepared and early. There has been a huge step forward in sustainability efforts over the last year, but a lot more still needs to be done. We can see how technology is already playing a key role in these efforts, especially in areas such as infrastructure where new technology, hardware and software, is being developed to help reduce the carbon-intensive nature of the sector.

We also saw *China* manage the pandemic well. They came out of it producing growth last year, while most other countries could not. China has also embarked on a green economy plan and there are new efforts to develop their domestic economy and dual circulation strategy. They have been quite restrained in the use of stimulus, which will give them a lot more fiscal flexibility down the road. Over the next few years, China's developments will be important for investors and businesses to watch.

The final trend is *geopolitics* as competition will likely intensify amongst the great powers. Given our transition to a multipolar world, this geopolitical competition will persist for a long time. We hope that this competition will be healthy to produce positive results and interdependency amongst the great powers to collectively solve big problems like climate change, but we also acknowledge that trust is not easy to build. It is important for leaders to ensure that they have good channels, understanding, and mechanisms to de-escalate if issues arise. This is certainly an important trend that investors must get used to and pay close attention to.

WHAT IS YOUR VIEW ON REBALANCING THE CAPITAL MARKETS?

As a long-term investor, we want to expand the pie as our long-term fortune depends on the pie growing, and not about who gets the biggest slice. We hope to support FCLT's efforts in rebalancing the capital markets as it'll get us to a place that is more sustainable. Over the last few years, we've been able to get many esteemed organizations in the whole value chain involved in this effort and I'm hopeful and optimistic that we can move the needle.

Overall, FCLT's mission really resonates with what I think is the right way of wiring the capital markets. It certainly speaks to GIC's way of doing things, which is focusing on the long term. It has been a great privilege to work with and learn from the many esteemed peers and colleagues at FCLT.

“
AS A LONG-TERM INVESTOR, WE WANT TO EXPAND THE PIE AS OUR LONG-TERM FORTUNE DEPENDS ON THE PIE GROWING, AND NOT ABOUT WHO GETS THE BIGGEST SLICE. WE HOPE TO SUPPORT FCLT'S EFFORTS IN REBALANCING THE CAPITAL MARKETS AS IT'LL GET US TO A PLACE THAT IS MORE SUSTAINABLE.
