GIC

THINKSPACE

PERSPECTIVES ON

Supporting Enterprises in a Technology-Enabled World

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This article adapts key points from a speech delivered by GIC CEO Lim Chow Kiat at Bloomberg Sooner Than You Think, held in Singapore on 6 September 2018.

GIC'S HISTORY WITH TECHNOLOGY

GIC is in the business of investing and supporting enterprises.

GIC was set up in 1981, with the mission of preserving and growing the long-term value of the national reserves placed under our management. To do so, we build a diversified but equity-centric portfolio. In other words, we rely on equities or business enterprises to generate the real returns for the portfolio.

On technology investing, we started from Day One, first by investing in technology companies listed on major stock markets, and then quickly expanded into venture capital when we opened our San Francisco office in 1986. The long history explains our strong links with leading technology investment managers. It also explains our constant effort to avoid being pro-cyclical, having seen the boom and bust during the dot-com era.

Today, we are active in the major hubs and asset classes. Our global and multi-asset class set-up allows us to invest across regions, and across public and private markets. Many new companies have found our broad investment mandate useful. We are flexible in terms of development stage, capital structure, investment size, geography and duration. We typically stay invested for the long term and through their financing life-cycles including multiple rounds.

FOCUSING ON CUSTOMER VALUE

How does GIC see businesses evolving in this technological age?

Business enterprises ultimately succeed or fail on whether they deliver customer value. Getting this right is fundamental. "Good, cheap and fast" still matters, maybe even more so. It's the formula for unicorns.

Customers have been the big winner of the tech era. Collectively, their needs are being met better, cheaper and faster. The innovations have been nothing short of transformational, including services such as search, maps, social media, entertainment, e-commerce, sharing of assets, etc. All of a sudden, life is so much better.

> **BUSINESS ENTERPRISES ULTIMATELY SUCCEED OR FAIL ON WHETHER THEY DELIVER CUSTOMER VALUE. GETTING THIS RIGHT IS FUNDAMENTAL.**

In particular, many long unmet needs were met, and met beyond expectations. A remarkable example of this is in micro business credit in developing countries. Small businesses which previously had no access to credit, are now able to get small loans through tech-enabled credit services. The same is for e-commerce. Normally in business we talk about who would be the losers, but in this case there wasn't one given the absence of a credit provider or market in the first place.

Indeed, customers have also discovered new needs. Who would have thought we needed 10K songs in our phone, binge watching of TV dramas, fast internet connections 24/7 including on all flights, and eventually perhaps to take a nap in a car that drives or flies itself?

Next is customization to individual preferences and fancies. Advances in data science, UX, manufacturing technology and predictive modeling will bring us more tailor-made solutions. It will make switching costs even higher. Customers will still be kings and queens, but they will be captive.

As with all technological changes, it's not all beneficial. This time round, the pervasiveness, speed of change, concentration of power and degree of intimacy make the downsides more severe. From privacy issues to cyber theft to fake news to addiction, the list goes on. With more advancement, there will likely be even more risks, unknown yet today. All parties need to make sure this great opportunity does not turn into a disaster. Making responsible and sustainable choices, in addition to collaborations, is necessary. At GIC, while we support technological changes with enthusiasm and excitement, we do so with circumspection. We need to factor in externalities. Generating long-term returns requires care in sustainability.

THE INVESTING PERSPECTIVE

First, winners are those with a relentless focus on customer value. What are the customer pain points, and how can new technologies be applied to address them? This is the perspective of the top technology leaders.

Second, we are soon reaching a point where every company is a technology company. Rather than look at traditional classifications and labels, look deeper into the actual technological capabilities of each company. First-principle perspective is needed, including examining the fundamentals of business enterprises such as prospects of cash flows, balance sheet strength, competitive position, etc. We have found traditional companies with substantial technology capabilities trading at “old economy” valuations. They are good investments and we keep looking for more of them.

> **AT GIC, WHILE WE SUPPORT TECHNOLOGICAL CHANGES WITH ENTHUSIASM AND EXCITEMENT, WE DO SO WITH CIRCUMSPECTION. WE NEED TO FACTOR IN EXTERNALITIES.**

Third, competition comes from everywhere. Ignore small competitors nibbling at small parts of the business at your own risk. Give an inch and they will take a mile. Fat margins attract competition like Amazon. True business moats are getting fewer. Today these are found in “ecosystem” businesses, where cross-selling, rich data, high customer switching costs and scale are reinforcing one another. They create a powerful network effect, producing high and sustainable returns on capital, much like an “investor surplus”. With great power comes great scrutiny. Management of these ecosystems need to manage the societal sensitivities. Those who can do this well should form the core of our investment portfolios.

Fourth, emerging markets are currently going through a bit of turmoil, especially in the financial markets. But technology disruptions can be even more powerful in developing or emerging economies. There are even more unmet needs and undiscovered needs. In fact, their populations tend to be younger, and they take to technology in some ways faster and better. So a well-funded disruptor has many leap-frogging opportunities.

Fifth, some of the best investments in the tech space are not the first movers, but the fast followers. FANGs and BAT are good examples. Often, it’s not the technology invention but the right commercialisation angle and execution.

CONCLUSION

GIC has a long history of investing in technology. We have seen the ups and downs, learned from our mistakes, and continued to improve. Through it all, we have developed new skills, strong relationships with investors and companies.

A relentless focus on delivering better customer value is the hallmark of every successful technology company. As investors, we look for commercialisation of the technologies that best solve these pain points, whether they exist in old or new economy companies. We look for ecosystem companies that are aligned with societal interests. This is especially so in the emerging markets, where unmet and undiscovered needs are greater, where leapfrogging opportunities are many.