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**Remarks by Dr Tony Tan Keng Yam, Deputy Chairman and Executive Director,
Government of Singapore Investment Corporation (GIC), at World Economic
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Looking ahead, the investment outlook is extremely challenging. Banks are de-leveraging thereby constricting their lending to companies and individuals. This has caused a credit crunch which has already affected the real economy and contributed to sharp slowdowns in national economies and the world economy. Households are also de-leveraging which could curtail consumer demand for several years, especially in the US. Many commentators have predicted that the global recession will continue through 2009 and possibly extend to 2010 or even longer. To revive their economies, governments have made major efforts to provide fiscal stimulus and central banks have implemented unconventional measures including quantitative easing i.e. making funds available to banks and financial institutions freely at almost zero rates of interest. There are moves towards a huge fiscal stimulus package by the Obama Administration amounting to over US\$800 billion.

If these measures work, the global economy could start to recover later this year and by 2010, we may see the end of the recession and a return to normal economic conditions. However, if the recession continues into 2010, this could be a sign that what we are experiencing now, which is the worst economic and financial

crisis in 50 years, is not a normal economic cycle but a sign of a systemic change in the world economy from one that has been steadily expanding since the Second World War to one that is becoming stagnant or worse contracting for a protracted period as in Japan in the 1990s. If such a dire scenario were to result, then obviously governments and investors will have to re-examine basic assumptions and prepare for a different world.

GIC is actively monitoring trends in global economies and markets. To produce reasonable returns in such a difficult environment will be a challenge. However, GIC, in my view, has three advantages. First, GIC has a long-term horizon of twenty years or more. This means that we can ride out fluctuations in the value of our investments over several economic and market cycles. This is very important as it is the long-term expected real return of the Government's portfolio which will determine the amount of drawdown which the Government can make from the reserves in accordance with the Constitution.

Second, GIC's portfolio is diversified over many asset classes ranging from equities and bonds to real estate, private equity, commodities and covering both the developed markets in the US, Europe and Japan as well as the developing markets in Asia and other parts of the world. This diversified portfolio as reflected in GIC's asset allocation strategy enables GIC to work towards a better optimal balance between risk and reward. GIC has always given priority to preserving the value of Singapore's foreign reserves in both good times and bad times. Our aim is first to ensure that our portfolios suffer minimal losses rather than try for maximum return.

As I have said, our philosophy is “Look after the downside and the upside will look after itself”.

Third, over the years GIC has built up a deep pool of expertise in our staff who are able to operate in many countries and in many markets. Our three investment groups which cover Public Market, Real Estate and Special Investments are in touch with banks, investment managers, brokers and other investors on a daily basis. We have also built up a good management structure with strong risk controls and the ability to co-ordinate our investment operations. All this will be very important for GIC in managing our operations in the coming months.

So long as GIC continues to manage its investments carefully and cautiously, diversify our portfolio intelligently and manage the risks well, I am confident that GIC will be able to deliver the sustainable investment returns which will enable the Government to prudently draw on Singapore’s reserves for budgetary purposes over the long term. This is the best contribution that GIC can make towards ensuring that Singapore continues to progress and prosper.

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