

**KEYNOTE ADDRESS BY MINISTER MENTOR LEE KUAN YEW,  
CHAIRMAN, GIC, AT THE GIC 25<sup>th</sup> ANNIVERSARY DINNER,  
11 JULY 2006, TUESDAY**

Prime Minister,  
Senior Minister,  
GIC colleagues,  
Ladies and gentlemen,

The GIC was set up on 22 May 1981, 25 years ago. In the 1970s, Singapore's financial reserves grew steadily from public sector surpluses. MAS was investing these funds mainly in short-term assets. I was then Prime Minister. My deputy, Dr Goh Keng Swee, convinced me that we should have a dedicated institution, separate from MAS, to specialize in managing our foreign reserves. This would allow MAS to concentrate on its central banking functions.

GIC came into being with me as Chairman, Keng Swee as Deputy Chairman, Hon Sui Sen and other Ministers as Board members. We appointed Yong Pung How as GIC's first Managing Director to lead the management team.

The GIC started in a turbulent international financial market. There had been an eight-fold increase in oil prices since the 1973 oil crisis. Several Latin American countries teetered on the brink of debt default, that threatened the solvency of major international banks, many in the US. Paul Volcker had instituted a tight money policy to wring inflation out of the American economy. Amidst these grave risks to the global economy, my cardinal objective for GIC was not to maximize returns, but to protect the value of our savings and earn a fair return on capital.

Over 25 years, GIC has grown in size, breadth and depth. Its fund size in 1981 was several billion Singapore dollars. GIC now manages well over a hundred billion US dollars. Its operations now extend over nine asset classes – developed market equities, emerging market equities, private equity, nominal bonds, inflation-linked bonds, real estate, commodities, hedge funds and short term assets including currency overlay. Investments straddle over 40 countries, largely in the US, EU and Japan.

GIC's investment results have been good. Over a period of 25 years to March 2006, the annual rate of return on the foreign reserves managed by GIC averaged 9.5% in US dollar terms, and 8.2% in Singapore dollar terms. The average rate of return over global inflation was 5.3% per annum.

The GIC has fulfilled its mandate of preserving the international purchasing power of our reserves. Indeed, the GIC has significantly enhanced the value of our savings.

To pre-empt misunderstanding, let me add that there is no connection between GIC's rate of return and the interest paid on CPF accounts. The GIC invests the Government's reserves abroad in equities, bonds, real estate and other asset classes, which carry higher risks and therefore can be expected to earn higher returns on average over the long term. The CPF invests members' savings only in absolutely risk-free Singapore Government bonds. CPF members are paid market-related interest rates based on the 12-month fixed deposit rates and the savings account interest rates of the major Singapore banks, subject to a floor. CPF members who are willing to accept higher risks for higher returns have many channels to do so on their own, through the CPFIS<sup>1[1]</sup> scheme.

In celebrating our success, we must gear ourselves to manage the opportunities that lie ahead. Seismic changes in the world economy have been set in motion by the rapid growth of China and India, offering immense investment opportunities. To be well positioned for these opportunities, GIC needs to be mindful of the factors for its success, the key factor is the quality of the people at GIC.

We have to ensure that at all levels of the corporation – Boards of Directors, Board committees, management, investment and other professionals – we have people of integrity, competence, experience, and motivated to do their best.

As Chairman of the Board for 25 years, I have drawn on the insights and sound judgments of many Board members. They helped me to set the direction for GIC's corporate development, shape our investment policies, and navigate through various market crises. I place on record the debt the government and GIC owes to former Board members: Goh Keng Swee, Hon Sui Sen, Lim Kim San, Tan Teck Chwee, Goh Chok Tong, Yong Pung How, S Dhanabalan, JY Pillay, Lee Seng Wee and more recently to Ho Kwon Ping. I also thank the current members of the Board: some like Tony Tan, Richard Hu and Lee Ek Tieng have remained in harness for decades. The Prime Minister and I are particularly appreciative that, since his retirement from the Cabinet last year, Tony Tan has agreed to devote more time at GIC as Deputy Chairman and Executive Director. Having been involved in GIC's development since its birth, Tony is exceptionally well qualified to advise the Board and to guide its management in the next phase of GIC's growth and development.

---

<sup>1[1]</sup> "The primary objective of the CPF Investment Scheme (CPFIS) is to enable CPF members to invest part of their CPF savings in approved instruments to enhance their old age savings. These approved instruments include trustee and non-trustee stocks/ loan stocks/bonds, fixed deposits, professionally managed products (unit trusts/fund management accounts, insurance policies, bonds issued and guaranteed by Singapore Government and Statutory Board bonds), and gold, with different investment limits for various instruments."

Over 25 years, we have built up a strong management team and a cadre of experienced investment professionals across all the asset classes. I am delighted that the recipients of our long-service awards tonight are being recognized for their contribution to making GIC what it is today.

The immense changes and opportunities in the investment world mean that the competition for investment talent has become intense. There is a world-wide shortage of financial talent, particularly in Asia where financial institutions have been talent hunting to meet the burgeoning demand for wealth management services. In this environment, GIC will have to compete hard for local and foreign talent.

The challenge for GIC is not so much in attracting young talent. We have had an undergraduate scholarship programme running for about ten years now which has attracted about 60 high quality candidates including non-Singaporeans. We are nurturing this pool of talent to strengthen our operating capability and in time to renew the ranks of management. To supplement this scholarship programme, we recently introduced an Associates programme to recruit external candidates as trainee investment officers. This was advertised widely in Singapore and overseas. It attracted over a thousand applicants which has now been winnowed to a dozen candidates of excellent potential.

It is no surprise that GIC has no difficulty in recruiting able young people. The training opportunity and exposure at GIC are compelling, perhaps unmatched in Asia among large investment firms. The quality and integrity of our staff, and GIC's reputation in the markets enhance the value of a candidate who can claim to have worked at GIC. Our challenge has been to retain officers we had trained and developed, and who are sought after by the private sector. Nonetheless, we appreciate the contribution which former GIC staff have made to the company, and are pleased that many of you are able to join in our celebration tonight.

The board and management are determined that GIC will offer attractive and satisfying career prospects for top talent. We intend not only to retain home-grown talent, but also to attract experienced professionals from the private sector, in Singapore and globally. To continue to do well, GIC must assemble the strongest international team we can find. We are ensuring that our remuneration policies are in tune with market practices so that our professionals can expect competitive compensation based on their performance and contribution. I am glad that the changes we made to the incentive compensation scheme have been well received by our staff.

Beyond a progressive and competitive compensation scheme, GIC should develop other competitive edges to recruit and retain talent. We need to create an environment where professionals can be deployed where they can best exercise their skills and maximize their contribution. As a global investor

operating in many asset classes across 40 countries, GIC can offer abundant opportunities for exceptional professional growth and experience. The long-term orientation that underpins our investment policy should apply with equal force to personnel management and development. We want our professionals to view their work at GIC not just as a job but more important as a long-term career.

The work we do at GIC has a significant bearing on the well-being of present and future generations of Singaporeans. It is an endeavour of national importance and deserves the highest dedication and best efforts that all of us can offer.

.....