



# Investing Well For A Resilient Future

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**LIM CHOW KIAT**  
Chief Executive Officer GIC

This article is an extract from the chapter “Letter from the Chief Executive Officer” in the GIC Report FY2020/21. You may read the full Report [here](#).

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### **2021 marks a key milestone for GIC, as we celebrate 40 years of pursuing our purpose to secure Singapore’s financial future.**

Back in 1981, our founding leaders, namely the late Mr Lee Kuan Yew and Dr Goh Keng Swee, entrusted us with the mission to preserve and enhance the value of Singapore’s foreign reserves. The founding team built GIC from scratch – our first Managing Director, the late Mr Yong Pung How, began his tenure with only a desk and an unusable telephone. They succeeded through sheer grit and resourcefulness, and laid the strong foundation of a global investing organization.

Today, GIC has assets in over 40 countries and offices in 10 key financial cities. We have come a long way from being a small team comprising 14 government officers and fresh university graduates led by three expatriate fund managers, to having over 1,800 employees globally. We have developed capabilities to invest across a wide range of asset classes, including equities, fixed income, private equity, real estate and infrastructure.

We would not be where we are today without the commitment and contributions of many, especially –

**Our founding leaders and generations**, for their foresight to recognise the importance of reserves management for Singapore and the boldness to set up GIC, the first global non-commodity-based sovereign wealth fund;

**Our Client, the Government of Singapore**, for their clear mandate and trust in empowering us to invest the best we can for Singapore;

**Our Board and advisors**, for their insights and wisdom to help us navigate the challenging and ever-changing market environment;

**Our partners**, for ensuring that our capital is safeguarded and invested successfully;

**The many GICians through the decades**, for contributing tirelessly to ensure that we grow from strength to strength internationally, to do our job well;

**And finally, our ultimate stakeholders – the Singaporean public** – for powering our purpose every day.

It has been a long and demanding journey, with more challenges ahead.

## | Cautious on macro, positive on micro

The global economy is on a recovery after an unprecedented and challenging year of the COVID-19 crisis, socioeconomic unrest, and political turmoil. Despite the turbulence, GIC's portfolio performance has remained resilient. As at 31 March 2021, for the 20-year period from 1 April 2001, the annualised USD nominal return of our portfolio was 6.8%. Adjusting for global inflation, the annualised 20-year real return was 4.3%.

Moving forward, we anticipate a differentiated global economic recovery across countries and sectors, with a wide range of potential outcomes over the medium and long term. Countries will each have to deal with different extents of economic scarring, recovery and reorientation of their economies and markets due to the pandemic. The pace and success rates of vaccine rollouts and reopenings will vary, as will different macro policy actions. The outsized and speedy monetary and fiscal stimulus actions in the US will likely drive its near-term recovery strongly, outpacing others even as it grapples with uncertainties such as inflation. China's success in containing the pandemic has also allowed for robust recovery without resorting to large stimulus. Most other countries are expected to only emerge from the pandemic slowly given the vaccination challenges and lack of policy space.

The pandemic has also magnified vulnerabilities and awareness of rising social inequalities. The push towards greater adoption of technology and automation will boost productivity, but could cause more job displacement, particularly for lower-skilled workers, widening the social divide. Broad inequality correlates with weaker economies, less stable politics, higher risk premiums, and more risk to long-term equity returns – all of which will impact global investors.

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Investment markets are currently pricing in expectations of a strong economic recovery, rendering them vulnerable to alternative scenarios given stretched valuations. Credit spreads are at historically tight levels implying low compensation for taking on default risk. Given the uncertain macro environment and stretched valuations, we expect returns from a broad range of asset classes to be low for the next five to 10 years.

At the same time, we see a broad range of bottom-up opportunities. Our investment teams are identifying and capitalising on key emerging long-term themes. In addition to actively pursuing opportunities with good risk-reward across different scenarios, our teams also seek to diversify across asset classes and geographies to make our portfolio more robust. We are planning to set up our 11<sup>th</sup> office in Sydney, Australia, in 2022, to bolster our ground capabilities to source for more opportunities.

## Long-term trends to watch: Sustainability, Technological Transformation and Geopolitics

Three long-term trends were accentuated by the pandemic and will continue to affect markets and drive GIC's investment strategy.

### Sustainability

First, there is growing global recognition that more resilient, long-term global economic growth will depend on a shift to sustainable practices. Investors must consider sustainability issues that can affect businesses and investments in the long term. Thus climate change is a key concern for long-term investors like GIC, as it will affect the value of physical assets and companies over time. By integrating climate change considerations into our portfolio, investment strategy and processes, and actively engaging and supporting companies in their transition to greener business models, we improve our overall portfolio resilience and drive positive long-term societal outcomes. As a long-term investor managing Singapore's reserves, sustainability is core to our mandate. We have made

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progress in the past year, including establishing an internal Sustainable Investment Fund to capitalise on the shifts towards a lower-carbon and more sustainable economy.

## Technological Transformation

Second, COVID-19 has accelerated digitalisation and other technological disruptions that we have long observed. The pandemic has forced many activities to go virtual, boosting developments such as telemedicine, digital payments, and online entertainment. The need for greater resilience has also encouraged more technology adoption in the management of supply chains. Investors must keep pace with the myriad changes to quickly identify and mitigate risks, and seize opportunities as they arise.

## Geopolitics

Third, the ongoing geopolitical tensions reflect intense rivalry among great powers. Conflict is not inevitable, and there are many imperatives and opportunities for global cooperation, such as in addressing climate change and building greater pandemic resilience. However, domestic political pressure and opposing strategic ambitions will create friction and divisions. These, in turn, may stymie the exchange of goods, services, people, and ideas, to the detriment of growth and returns. The wide range of possible outcomes calls for more thoughtful diversification, greater portfolio agility, and a keener eye for growth than ever before.

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## Reflecting on the significance of reserves and our role as a custodian

The COVID-19 crisis has clearly shown the importance of reserves as a rainy day fund. In Budget 2021, the Singapore Government rolled out the S\$11 billion COVID-19 Resilience Package – to continue its support for public health, businesses, and sectors under stress. Together with previous budgets rolled out in 2020, the draw on past reserves over the past two financial years could come up to S\$53.7 billion<sup>1</sup>. For the current fiscal year, the annual Net Investment Returns

<sup>1</sup> Ministry of Finance: Budget Speech For Budget 2021

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Contribution (NIRC) – the investment returns from MAS, GIC and Temasek, and the single largest contributor to the Government’s Budget – is an estimated S\$19.6 billion. This underscores the importance of preserving and enhancing the long-term value of the reserves to fund the country’s operations. As the manager of Singapore’s reserves, we continue to feel the weight of our responsibility to invest Singapore’s foreign reserves prudently.

## Giving back to the communities

2020 was a particularly challenging year for many, and GICians worldwide were committed to giving back to our communities through various donation drives and volunteering efforts. We established our *With Love, GIC* programme – a fund to support ground-up initiatives from employees who wished to contribute to their communities. These activities included putting together and distributing food packs, healthcare supplies and other essential items, facilitating online learning for students, and enabling our charity partners to scale up their outreach and capacity.

We continue to champion social impact projects with like-minded partners via our flagship programmes such as *GIC Sparks & Smiles* and *The Purple Symphony*. A key highlight in the past year was the recognition for our community efforts with a national award – Champions of Good 2020 – by the National Volunteer and Philanthropy Centre in Singapore. This award recognises organizations that are exemplary in doing good and have also been engaging their partners and stakeholders on a collaborative journey.

## Commemorating 40 years of investing to secure Singapore’s financial future

In all that we do, we are guided by our purpose to invest well for the long-term stability of Singapore’s finances. To commemorate our 40th anniversary, we launched *Gift A Tree* – an enterprise-led initiative where each employee plants a tree – as a mark of our commitment to a sustainable future. We will



also be publishing our GIC History book to recount the long-term vision of our founding leaders in setting up GIC; the many challenges that they faced, and how they overcame them by sheer will and tenacity. Finally, we will be introducing the *GIC Investing Principles* curriculum to help the Singaporean public understand our investing principles and how these relate to them.

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## Anchored by our purpose in the past, present, and future

In the past four decades, through the many market ups and downs, we have been anchored by our purpose and values. All GICians across our 10 global offices are united by our shared purpose of securing Singapore's financial future. Going forward, we remain guided by the vision of our founding leaders and will play our part by investing well for present and future generations of Singaporeans.



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