

BOLD

The Untold Story
of Singapore's
Reserves and
Its Sovereign
Wealth Fund

VISION



FREDDY ORCHARD

FOREWORD BY THARMAN SHANMUGARATNAM

BOLD VISION

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Cover design by Diane Lim

An earlier version, titled *Safeguarding the Future—The Story of How Singapore Has Managed Its Reserves and the Founding of GIC*, was published as an ebook in 2016.

Published in Singapore by Epigram Books
www.epigram.sg

National Library Board, Singapore Cataloguing-in-Publication Data

Name(s): Orchard, Freddy.

Title: Bold vision : the untold story of Singapore's reserves and its sovereign wealth fund / Freddy Orchard.

Description: First edition. | Singapore : Epigram Books, [2021] | Includes index.

Identifiers(s): ISBN 978-981-4901-79-6 (paperback) | ISBN 978-981-49-0178-9 (hardcover)

Subjects(S): LCSH: Sovereign wealth funds—Singapore. | Government corporations—Singapore. | Investments, Singaporean.

Classification: DDC 332.67312095957—dc233

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First edition, September 2021.

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EPIGRAM

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Foreword

By Tharman Shanmugaratnam, Senior Minister
and Deputy Chairman of GIC

GIC's 40th year comes in the midst of the most severe crisis the world has seen in over 70 years.

More than any previous episode, the crisis has highlighted the importance of the organisation and the confidence it brings to Singapore.

GIC's work in growing our reserves steadily over four decades has allowed the government to draw on the reserves in an unprecedented way during the COVID-19 pandemic, to support the economy and jobs, and to steady the nerves of Singaporeans.

This book describes how GIC has done so. Its sustained record owes itself to the philosophy and organisational ethos ingrained by its founding leaders, and the expertise and global partnerships progressively built up over the years.

GIC was founded in 1981, but it was part of the larger approach to public finances that Singapore had adopted since its independence in 1965. Thinking long-term is at the core of the philosophy: thinking not just one year or one term of government at a time, or even one

generation at a time, but about the interests of both current and future generations. It is why the government is bound by constitutional safeguards that cap the spending of investment returns, require that its budgets are balanced across each term of government, and protect revenues generated from the government's sales of land.

Investing the government's reserves for long-term returns has been the other half of this approach to public finances. GIC was an unconventional idea, and the first sovereign wealth fund that was not funded from commodity earnings. It was the vision of Dr Goh Keng Swee, then-deputy prime minister and chairman of the Monetary Authority of Singapore, that the nation would be better served by the government taking surplus reserves off the balance sheet of the central bank, to be invested at risk for long-term returns.

GIC's long-term orientation has enabled it to invest in a widely diversified global portfolio of risk assets, including illiquid assets—very different from the way reserves are managed by central banks. It has also allowed GIC to weather repeated global crises with confidence, and to take short-term losses as the price of investing for good returns over the longer haul.

GIC's healthy performance has also reflected its organisational culture, and the capabilities it has built. The ethos that was instilled from its very beginning, under its first chairman, then-prime minister Lee Kuan Yew, continues to define the organisation. Generations of GIC-ians have pursued their mission with integrity, discipline and a sense of purpose. GIC is run on a strictly meritocratic basis, and puts great emphasis on developing team and organisation-wide expertise. Its governance structure, with a clear separation of responsibilities between the board and management, encourages the highest standards of professionalism.

We must preserve and build on this 40-year GIC tradition. The demands of the decade ahead have never been greater, or more complex. The COVID-19 pandemic will not be over soon, and repeated economic disruptions cannot be ruled out. At the same time,

there have been few periods in history where US equity valuations have been as high as they are today, and none where they have sustained such highs. Public and private debts have grown rapidly. The odds of inflation rising above trend and interest rates spiking are also growing, which could further undermine the role of bonds as a buffer against equity risk.

GIC will also have to navigate an environment shaped by more fundamental challenges and opportunities. In an environment of lower expected returns for most asset classes, it will have to seek out business models driven by new technologies and innovation that can cut across market cycles. Heightened geopolitical tensions and the possible emergence of different technological ecosystems will add complexity to investment decisions. The transition to a low-carbon economy, already a consideration for GIC as a long-term investor, will surely also grow in importance.

GIC is prepared for this new future. It is developing new approaches to diversify its portfolio and invest with agility so as to create new sources of returns. It is building on its formidable base of skills and its valuable network of partners. But in all of this, GIC's culture of integrity and disciplined ambition remains key. The odds are that it will succeed as it writes the next chapter of the GIC story.

Prologue

Slightly more than 40 years ago—on 22 May 1981 to be exact—erstwhile lawyer and banker Yong Pung How was issued the certificate of incorporation of the Government of Singapore Investment Corporation, or what we now call GIC.

To the casual observer, the incorporation of GIC was a non-event. It was not marked by inauguration ceremonies, nor did it receive press coverage. However, the absence of fanfare belied the importance of the event for Singaporeans: the founding of GIC was a watershed, a game-changer in the way the country's foreign reserves would be managed.

Bold Vision: The Untold Story of Singapore's Reserves and its Sovereign Wealth Fund recreates the vision, creativity and drive that led to the founding of GIC. However, as the title intimates, the story that is told here is also about how GIC is part of the larger tapestry of how Singapore has managed its reserves since it gained its independence in 1965. While the founding of GIC was a landmark development, GIC was not born in a vacuum. It had a prehistory, as it were, for its values and ideals were forged in the crucible of Singapore's financial experiences in the country's formative years.

The book is divided into two sections. The first section (“Laying the Foundations”) deals with the pre-GIC period. It discusses three dramatic episodes concerning the reserves, all occurring soon after independence: the failure of negotiations to continue with a common currency with Malaysia; the decision to maintain the currency board system rather than establish a central bank; and the diversification of Singapore’s reserves from sterling. Then, the section covers the first attempt to institutionalise the practice of reserves management and the subsequent formation of the Monetary Authority of Singapore (MAS).

It might be easy to dismiss events in the pre-GIC period as “ancient history”, so outmoded were communications, technology, financial markets and other facets of life then, look now. But the developments of that period narrated in the book portrayed themes that would anticipate the principles underlying Singapore’s reserves management policy today.

One such theme is the close attention given to reserves management by the political leadership at the highest level. The standard was set from the start by Lee Kuan Yew, Singapore’s first prime minister, and Dr Goh Keng Swee, his deputy. Both were of one mind when it came to reserves management policy. While there were occasional differences between the two, as the chapter on sterling will illustrate, Lee gave Dr Goh the latitude to drive initiatives concerning reserves management and endorsed the outcomes. In turn, Dr Goh initiated and developed the practice of reserves management in Singapore. He also conceived of GIC. Dr Goh can rightly be called the “father” of reserves management in Singapore. It is therefore fitting for the first chapter of the book to be dedicated to Dr Goh and his contributions to reserves management.

The second section (“Leaping Forward”) covers the genesis of GIC. The decision to establish GIC was both original and audacious. Forty years ago, something like it was not an obvious proposition. Only oil-rich countries had anything resembling a sovereign wealth fund

(SWF), and all that Singapore had by way of oil (then and now) was the uncertain sweat of its brow. Other non-oil countries, like China and South Korea, have since established SWFs, but Singapore was the first country deriving its reserves from surpluses generated by its trade and capital accounts to do so. Why and how did Singapore’s leaders, in particular Dr Goh, come to conceive of GIC? What was the rationale for its formation?

The story of how GIC was brought to life is equally significant here. It had to begin operations from scratch and its founding leaders had to resolve fundamental issues. How should an investment management company be started in the absence of indigenous fund management expertise? Should the funds be managed primarily by external fund managers or by home-grown expertise? If the latter, could such expertise be developed, and how fast? What would be the appropriate corporate structure for GIC? What about the composition of its board?

A number of leitmotifs in the GIC story were set very early. They included the indispensability of a can-do spirit to solve problems that had no precedence; the emphasis on good corporate governance; and the conviction that the task of husbanding the reserves was so important it required the attention of the country’s top political leadership. At Dr Goh’s suggestion, Lee became GIC’s first chairman. Both men recognised that the reserves were of such strategic significance to Singapore that they required the oversight of the prime minister. Lee remained GIC’s chairman till 2011. During his tenure as chairman, Lee shaped the very contours of GIC’s soul—such was his influence on GIC’s mission and ethos.

Reserves management is not a subject that normally figures large in the annals of a country’s history. The subject seemingly lacks the drama and the heroic deeds that stir the blood.

There are two reasons for this commemorative book. The first is the singular importance of reserves to Singapore. This is a theme that resonates throughout the book. Thus, in the very first episode, on

the negotiations over the currency link with Malaysia, the republic's inaugural cabinet equated losing control over the reserves to surrendering control of the nation's destiny to a foreign government.

Over the years, the country's reserves have secured the financial security of Singaporeans. These reserves have been the guarantor of the nation's sovereignty; the imprimatur for the country's triple-A credit rating which meant secure savings and investments for Singaporeans and foreign investors; the firewall which shielded Singapore from the numerous external financial crises over the decades, including the 2008 Global Financial Crisis and the COVID-19 pandemic; and the wherewithal which enables Singapore to improve its social services and infrastructure without hefty tax increases. In short, the Singapore Story—the progress of a small island state since independence—has been underwritten by the investment returns from the diligent management of the country's reserves.

The book has another message: that the advances in reserves management were not due to happenstance, but the outcome of an indomitable spirit to do the utmost for the country's reserves. In a sense, the book therefore is a celebration of the triumph of vision, duty, will, enterprise and energy. These are the ideals and values bequeathed to and embodied in GIC in order for it to fulfil its mission of securing the financial future of Singapore.

I / Laying the Foundations

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Chapter 4	/	The Sterling Raj
Chapter 5	/	The Buccaneers
Chapter 6	/	A Productive Interregnum

A Singular Man

Yong Pung How had a dilemma on his hands. He had checked in at the Hyde Park Hotel in London together with his boss, Dr Goh Keng Swee, then-deputy prime minister and education minister.

Yong, only recently appointed the managing director of a new investment company established to manage Singapore's external reserves, knew Dr Goh as a man with "a formidable reputation for scolding and firing people."¹

The hotel gave them adjacent rooms, Dr Goh a large spacious room, the "biggest in the hotel,"² and Yong a smaller room, a "tiny, tiny room"³ by comparison. After the porters had brought their bags up and placed them in the respective rooms, Yong took a walk around the hotel to get his bearings.

When he returned, he found Dr Goh's bag in his room, while his bags were missing. Wondering what had happened, he walked into Dr Goh's room, and found his own bags there.

The great man was at the desk, working on his papers. He looked up as Yong came in and announced that he would be taking over Yong's room, and Yong could have his grander quarters. Yong protested

LETTER OF APPRECIATION FROM PRIME MINISTER
LEE KUAN YEW TO DR GOH KENG SWEE ON 28 DEC 84

"Dear Keng Swee

This is a most difficult letter of appreciation to write. To call it a letter of appreciation is to belittle the contribution you have made since June 1959. It was your stupendous exertions from 1959 to 1965 that kept Singapore's economy from faltering and floundering through those difficult years. Few remember that we were overwhelmed by widespread unemployment of over 12 per cent. Those were dreary and grim years.

It was my good fortune to have strong men around me in Cabinet, right from the start. My debt to you is immeasurable. Your analysis of acute problems with academic detachment and objectivity in the middle of a major crisis was invaluable. Looming threats shrink into less fearsome proportions when seen in perspective. Your robust attitude encouraged me to press on against seemingly unwinnable odds. This was especially so when we suddenly become independent in 1965 and we had to provide for a new way of making a living. Together with Raja and Chin Chye (up to 1980, when he left the

lky/1984/lky1228.doc

Government) all of you stiffened my morale at times of crisis, which is when the mettle of a government is put to the test.

Your biggest contribution to me personally was that you stood up to me whenever you held the contrary view. You challenged my decisions and forced me to re-examine the premises on which they were made. Thus we reached better decisions. This benign tension made our relationship healthy and fruitful.

No panegyric can do justice to you. A whole generation of Singaporeans take their present standard of living for granted because you had laid the foundations of the economy of modern Singapore. And you catered for more than bare living. Singaporeans who bring their children to the Bird Park, Chinese Garden, Japanese Garden, Jurong Golf Club, or Sentosa, or who listen to the Singapore Symphony Orchestra, owe their pleasures to you. Year after year you strenuously pressed me to support these loss-making companies. You convinced me that if we are to achieve our long term aspirations for Singaporeans then, as a people we must begin to have some feeling for the aesthetic in life.

I am happy that you have had agreed to be MD of the GIC/MAS, until after the budget in March 1985 when Joe Pillay will take over from you. Then you will be Deputy Chairman GIC/MAS. I shall ask you to take up various tasks

lky/1984/lky1228.doc



but to no avail. The frugal Dr Goh—he famously washed his own undergarments when travelling—said he preferred smaller rooms.

Scrambling to avert an awkward breach in protocol, Yong, a future chief justice of Singapore, told Dr Goh that the rooms had been assigned on the advice of the British security service. While Dr Goh’s room was positioned such that security officers could keep it under surveillance, Yong’s overlooked a park adjoining the hotel and the security service could not vouch for its safety. Yong’s explanation was probably apocryphal, but it worked. Mumbling under his breath, Dr Goh reluctantly agreed to return to his own room.

The incident over, the two men began discussing the business schedule ahead. They were on the first leg of a mission to recruit experienced fund managers for their new investment company. As it turned out, they did not find any suitable candidates in London.

They were more successful in New York, where they found three American fund managers willing to leave established investment houses to join a company in Southeast Asia that was then little more than a shell.

Indeed, the shell had come into existence only recently, three months after 27 February 1981, when Dr Goh, then also chairman of MAS, had issued a statement announcing that the government would set up an investment corporation. This corporation would invest the foreign reserves that were in excess to what MAS, the country’s de facto central bank, needed to manage the exchange rate, the statement explained. While MAS would keep its own foreign reserves liquid, the new company would be free of liquidity constraints and would thus be able to invest in long-term assets with a view to capital appreciation.

The statement was matter-of-fact, even prosaic, but the idea it expressed was far-sighted, original and bold—far-sighted because it foresaw that Singapore would have a chronic balance of payments

While MAS would keep its own foreign reserves liquid, the new company would be free of liquidity constraints.

About the Author



Freddy Orchard has been director of economics at the Monetary Authority of Singapore (1995–1997) and GIC (1989–1999). Since his retirement, he has served on the investment committees of several Singapore charities.

Acknowledgements

**This book would not have been possible without the contributions of
and oral interviews given by the following individuals:**

Chia Tai Tee	Ngiam Tong Dow
S. Dhanabalan	J. Y. Pillay
Herman Hochstadt	Aje Saigal
Richard Hu	Elizabeth Sam
Richard Katz	Seek Ngee Huat
Koh Beng Seng	Tharman Shanmugaratnam
Lee Ek Tieng	Sim Kee Boon
Lee Hsien Loong	Tony Tan
Lee Kuan Yew	Teh Kok Peng
Lim Kim San	Leslie Teo
Lim Siong Guan	Wee Cho Yaw
Ravi Menon	Wong Kok Hoi
Claus Moser	Michael Wong Pakshong
S R Nathan	Yeoh Lam Keong
Ng Kok Song	Yong Pung How

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