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"You Need People Who Can Imagine How It Is Possible to Disrupt Businesses"

Exclusive stars interview with ***Liew Tzu Mi, Chief Investment Officer, Fixed Income and Managing Director, GIC, Singapore, stars alumna****, conducted by* ***Ruben Schoenenberger, Editor-in-Chief, Toggenburg Medien AG, Wattwil, Switzerland***

Ruben Schoenenberger: *Liew Tzu Mi, when GIC started fixed income investing back in 1981, the environment was a completely different one.*

Liew Tzu Mi: Indeed. When we started fixed income investing, interest rates were still double digits. Back then, the beta delivered those double digits returns. Today, bond yields are low. As the starting yield is a good predictor of future return of bonds over the long run, prospective returns of bonds as an asset class will be low. Therefore, if we want to make a difference, we really have to increase our alpha contribution as a way to deal with this poor beta performance.

How exactly do you do that?

There are different things we are doing. First, we changed the way we see portfolio management from one that is relative-return, benchmark-driven to one that is more absolute-return focused or even benchmark-agnostic. Our starting point is not the benchmark, but rather: which are the bonds we want to own in the portfolio, if we want to have the best possible returns, given the risk constraints that we have. Second, fixed income is a heterogeneous asset class. Many of the emerging market bonds are still quite attractive, in both nominal and real yield terms. One example is Chinese government bonds. This is a huge market. Yet, because of restrictions in the early days, there were not many foreign investors in the onshore bond market. Therefore, very early on, we approached the regulators and offered to be their partner in their journey of opening up the onshore market to foreign investors. So, we were quite lucky to be given a quota very early on. Third, in the global credit space, we have been investing in companies by providing bespoke financing options across the capital structure. We create long-term win-win partnerships by supplying needed debt capital for good companies for which we have strong conviction in. In this low-yield environment, such investments offer much better risk-reward than the broader market.

Did you get that early access because the Chinese felt that your expertise was needed?

It is a win-win-partnership. China intended to open up the market, but authorities were worried about the volatility that foreign capital flows could bring. Our approach is different. We focus on the long term. We can be countercyclical: when everybody is trying to exit the market, we might come in as a balancing force.

How risky is that engagement in China? And in emerging markets generally?

Emerging markets is a very broad term and countries have different risk characteristics. So, we really have to look at them on a case by case basis.

STARS – FOR LEADERS OF THE NEXT GENERATION
Rathausstrasse 33, 8570 Weinfelden, Switzerland Phone +41 52 540 00 20 info@the-stars.ch www.the-stars.ch

What about developed markets? US bonds are getting more interesting again. Would you agree?

Definitely more interesting than before, but there are some aspects we have to consider. First, what expectations are already priced in? Right now, the market is pricing in some hikes in interest rates by the Fed. If you look at the current growth and inflation dynamics in the US, there is more room for the Fed to raise interest rates beyond what is already priced in. Second, inflation in the big scheme of things is low, but the rate of change of inflation is showing signs of picking up. Labour market is strong, wage growth is strong, consumer sentiment is quite good. So, there could be a pickup in inflation beyond and above what is priced in by the market. Having said that, we are not advocating high interest rates. The global economy today is much more sensitive to a rise in interest rates because of the high amount of debt in the system.

Apart from developments in the markets, how do underlying trends like big data, artificial intelligence, automatization and the like influence your daily work?

We are looking at various ways in which technology could affect us. At the organisation level, we have an "ODE" (Offensive-Defensive-Enterprise Excellence) strategy. Offensive - we are looking at ways to invest in companies which will be successful in investing in such technologies. Defensive - we also know that if these companies become successful, they will disrupt existing businesses. That could lead to a permanent impairment of the incumbents. We are therefore quite careful in looking at our current investments and determining the risk of their business being disrupted. Enterprise Excellence, lastly, is more about looking at broad practices in front-, mid- and back-offices.

Are automatization, artificial intelligence and big data the biggest developments to come in terms of how you work?

Our structures today are very different. In the past, the technology people would help you with specific software- or hardware- problems, and leave thereafter. We are now changing to a more hybrid arrangement where the technology people are really part of the team, understand the business, and we co-own the process of problem identification and solutioning.

Not only technology is moving fast, today's times are volatile as possibly never before. How does one lead in these circumstances?

It is very challenging indeed. You cannot presume that a leader will know everything, especially when in unprecedented, uncharted territory. Leading is about our ability to leverage talents who bring in different skillsets in a team and to make them work together. Furthermore, talents for the future are the ones with the ability to imagine the unthinkable and new business models. You need people who can imagine how it is possible to disrupt businesses, understand the importance of innovating and find different ways to get ahead of others. You need people who are energetic, who are not afraid to take risks to try and who are not happy with just being comfortable.

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