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Interview with Chief Economist of Singapore's Sovereign Wealth Fund GIC: Long-term Investing in the Age of Digital Disruption

*Today, every company has to embrace technology, competition comes from everywhere and emerging markets have become major hubs for innovation. As a long-term investor, GIC, Singapore's sovereign wealth fund, continuously seeks to identify the winners of the current technological shifts. While Dr. **Prakash KANNAN**, newly appointed Chief Economist of GIC, sees the rise of many promising entrants, he believes that incumbents who are building up strong digital capabilities also make attractive investments. This exclusive stars interview was conducted by Prof. Dr. Ulf RICHTER, Associate Professor at Tongji University, Shanghai, on the sidelines of the [6th stars Singapore symposium](#).*

Ulf Henning RICHTER: What are the biggest growth opportunities for GIC in the next five years?

Prakash KANNAN: We are in a very challenging investment environment. We see lower return prospects given high valuations, slowing global growth, limited policy ammunition, geopolitical uncertainties and strong competition for assets. As a value investor, our strategy is to maintain price discipline and find idiosyncratic opportunities with attractive risk reward that allow us to leverage our long-term, flexible mandate and global networks. For example in real estate, we have been investing into non-traditional sectors such as student housing, data centres, co-working spaces, logistics centres. Bespoke financing for companies is another attractive area, where we seek to provide needed debt capital to good companies for which we have strong conviction of their strategies, assets and staying power. As technology continues to advance and disrupt traditional industries and spawns new businesses, our investing efforts have also expanded as we look for the winners of this shift. Having a long, established presence in innovation hubs such as Silicon Valley and Beijing enables us to capture interesting opportunities. We also stand ready to take advantage of potential market dislocations.

What are the key technology trends and challenges for GIC to prepare for?

GIC has been a long-term investor in this space, starting since the 1980s. Our global set-up also helps us to spot leads and lags across regions. One key trend is that we are reaching a point where every company needs to have a well-articulated technology strategy at its core. We need look beyond traditional classifications and labels, and instead delve deeper into the actual technological capabilities of each company. Second, true business moats are getting fewer. Today they are found in "ecosystem" businesses, where cross-selling, rich data, high customer switching costs and scale reinforce one another. This creates a strong network effect, providing an "investor surplus" as additional profits are generated without additional capital from investors. However, with great power comes great scrutiny and societal sensitivities need to be managed. Third, emerging markets, such as China and India, have become major hubs for innovation and technology adoption. This is due to their less mature industries, fewer legacy arrangements, lower costs and strong talent pool. Emerging economies also have many unmet and undiscovered needs, and offer many leap-frogging opportunities.

At GIC, we seek to identify the winners of this technological shift. While we see many promising entrants, incumbents who are building up strong digital capabilities also make

attractive investments. And as business models are rapidly evolving, we need to be alert and open to changing assumptions about industry classification and structure, the pace of change, brand value, consumer loyalty, regulatory regime and the like. At the same time, we seek to protect the value of our existing investments as they face disruption. This defensive stance is very important. Fortunately, our investing in the technology space has given us a sharper appreciation of the threats and opportunities faced by companies in our portfolio. Another key challenge is the growing concern related to disruption in jobs, privacy issues, cyber theft, fake news, addiction and so on. This will likely result in increased scrutiny and regulation, creating some uncertainties for tech companies.

How does the ongoing global trade war affect the business of GIC?

Even with a globally diversified portfolio, we are watching the developments on the trade front closely. Supply chains are very integrated nowadays and so any trade tariffs can have broader consequences across markets than just the countries directly affected by the tariffs. We see willingness by the US and China to stay conciliatory and de-escalate tension, with both countries resuming the negotiation process.

How do you see the competitive impact by China's Belt and Road initiative (BRI) on GIC investments?

BRI will be an important development for the next few decades. As China transitions from a phase of rapid growth to one of slower speed but higher-quality development, the BRI will help open up new markets and become a new source of growth. If successful, it will create many large scale commercial and investment opportunities for businesses both in China and around the world.

What is your personal view on leadership and how to grow the next generation of leaders in your company?

The most important thing about leadership for me is to ensure that the climate in the team is one where each member is motivated to excel and is not afraid to express their views. Good decisions come about from good research and good debate, and this cannot happen if the leader does not create an environment of "psychological safety". As for growing the next generation of leaders, I believe it is important that the aspiring leaders constantly take on challenges that are just a little outside their comfort zone.

Dr. Prakash KANNAN is Chief Economist and Head of Total Portfolio Management at GIC. He is responsible for medium-term global macro and asset allocation strategy. He has more than 15 years' experience in global macro research and strategy. Prakash started his career with the Central Bank of Malaysia (Bank Negara Malaysia) during the Asian Financial Crisis. Prior to GIC, he was with the International Monetary Fund (IMF) where he was a member of the World Economic Outlook team and participated in missions to Turkey, the United Kingdom, Norway and Cyprus.

The views expressed here are solely those of the interviewee and they do not necessarily represent or reflect the views of the stars Foundation.

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