

Call for GIC to invest CPF in local stocks stirs debate

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A PROPOSAL by the Singapore Business Federation (SBF) for sovereign wealth fund GIC to use Central Provident Fund (CPF) monies to invest in the Singapore stock market touched off a lively debate, with opinion split down the middle.

A number of observers panned the idea, which comes at a time when a government-appointed panel is due to recommend how CPF members can achieve higher returns through private investment plans.

They said that Singapore's market is too small to fulfil GIC's mandate to preserve Singapore's purchasing power by achieving long-term, diversified returns. They pointed out that the CPF scheme is meant to ensure retirement adequacy, so at least a portion should be ring-fenced and kept in risk-free investments.

However, local market participants were supportive, saying that institutions play a role in improving liquidity and valuations given the current stagnant market.

Esmond Choo, a senior director at broker UOB Kay Hian, said that the SBF recommendations are timely as Singapore Exchange (SGX) has been under pressure from regional competitors for years. The proposal to use pension monies to invest locally will professionalise retirement investing and strengthen local fund management capabilities, he said.

"A consistent monthly inflow of CPF monies can drive both primary and secondary liquidity, therefore improving . . . valuations of locally listed stocks. The expectation for valuation expansions will have a multiplier effect and may drive the inflow of foreign funds," he added. "New money seeking quality investments will hopefully improve the fundamental quality of local stocks."

Jimmy Ho, president of the Society of Remisiers of Singapore, said that while institutions have to base investment decisions on commercial grounds, there should be a "nationalistic" impulse to support the local stock market. "If the stock market is not doing well, it's not easy for the economy to prosper," he said.

But diversification will be important from GIC's perspective of achieving long-term returns, said Christopher Tan, chief executive of boutique retirement planning firm Providend.

"If you bought Singapore stocks last year and have not bought anything from Europe and Japan, you wouldn't have made money," he said.

Individual investors have to diversify between asset classes to minimise volatility, Mr Tan said. "You've got to put some in bonds - the man on the street either buys a bond exchange-traded fund (ETF) or an actively managed bond fund," he said.

Similarly, David Gerald, president and CEO of investor lobby group Securities Investors Association of Singapore (Sias), said that GIC should not be restricted to only local markets when investing CPF monies. CPF members will want good returns, and GIC will naturally want

to diversify, he said. "Let them go for local investments that match overseas investments' returns," Mr Gerald added.

Bank of America Merrill Lynch economist Chua Hak Bin said that government involvement in the stock market is already very large through Temasek-linked companies. Investing CPF pension funds in the local stock market can boost it in the short term but end up removing liquidity instead, he said.

At end-2015, Singapore's stock market capitalisation is US\$0.5 trillion, according to Bloomberg. This compares to US\$23.5 trillion for the US, US\$7.1 trillion in China, US\$5 trillion for Japan, and US\$3.4 trillion in the UK.

GIC does not disclose the size of its assets under management, but its latest annual report notes that it invests "well over US\$100 billion" in a mix of developed and emerging market stocks, bonds, real estate and private equity across over 40 countries.

The Ministry of Finance's website said that GIC's mandate is to preserve and enhance the international purchasing power of government reserves. "As a rule, GIC's investments are outside Singapore and not in Singapore companies or instruments," it said.

SBF's investment proposal centres on the rule above. On Wednesday, the SBF, a business chamber set up by the government in 2001-2, released a position paper containing wide ranging proposals to make the Singapore economy more competitive.

Among them was a recommendation to "look into how our securities market can be made more vibrant and liquid, so that it can provide enterprises good access to capital".

In a proposal under the recommendation, SBF suggested that GIC should relax its overseas-only investment rule.

The proposal was for GIC to use CPF monies to invest locally. That infringed another rule: that GIC manages government assets in a single pool.

CPF monies, which are invested in special non-tradeable bonds issued by the government, form a part of the government's assets that GIC invests.

The rest of the government's assets that GIC invests includes proceeds from normal bond issues, budget surpluses and land sales proceeds.

GIC, which regards itself as a "fairly conservative investor", invests the pool "with the aim of achieving good long-term returns", its website said.

SBF said that the government should consider "separating the CPF component and managing it differently as how pension funds are managed".

"This will free these funds from the GIC investment restrictions and will likely result in some investments in the Singapore market. These investments will send strong signals on our market to other investment professionals," it said.

Joseph Cherian, practice professor of finance at National University of Singapore (NUS) Business School, said that he is not against the SBF suggestion. Yet SBF should not link GIC

with the use of CPF to invest in local stocks, he said. "Linking the two confuses folks and sets alarm bells off unnecessarily," he said.

If the aim is to improve SGX's liquidity and vibrancy, there are two separate ways to go about it, Prof Cherian said. One is to improve the CPF Investment Scheme, which already allows members to invest in Singapore dollar-denominated mainboard shares as well as a number of mutual funds.

Fees can be lowered for investors, more low-cost local ETFs can be introduced, and more financial education given on how to invest retirement savings, he said.

The other is for GIC to loosen its mandate so that it can also invest in Singapore, he said.

Some also wondered if SBF's suggested method for companies to have better access to capital is sound.

Chan Chong Beng, chairman of interior furnishing firm Goodrich Global, said that listed companies get capital because they demonstrate a desire to expand, and not just because they are liquid.

"You cannot increase liquidity as a carrot for companies to expand. You give them more problems if they try to expand for the sake of expanding," he said. It is more important for local businesses to possess an entrepreneurial spirit and an "eagerness to move", he said.

Ultimately, the roles of the CPF and GIC cannot be conflated, academics said. NUS economics professor Chia Ngee Choon said that the intent of the proposals is to revive the lagging stock market, but the primary role of the CPF is to ensure retirement adequacy. "Such proposals must ensure that the primary role of CPF is not compromised," she said.

Gillian Koh, senior research fellow at the Institute of Policy Studies, said: "Those making such arguments may be better advised to look at growing and strengthening Singapore businesses more directly so as to attract true investment wealth in Singapore and from outside it, rather than to ask that ordinary Singaporeans gamble with their basic retirement safety net at any time," she said.

When contacted, GIC declined to comment. A Ministry of Finance spokesman said that the ministry is studying the recommendation.