



# GIC's role in the investment of CPF monies

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# Compulsory Defined-Contribution Employment-based Savings Scheme

To provide financial security for Singaporeans in terms of retirement, healthcare, education and housing

## CPF Contributions

### Ordinary Account (OA)

*For housing, insurance, investment and education*

### Special Account (SA)

*For old age and investment in retirement-related financial products*

### Medisave Account (MA)

*For hospitalization expenses and approved medical insurance*

### Retirement Account (RA)

*For retirement needs. Automatically created at age 55 by merging OA and SA monies.*

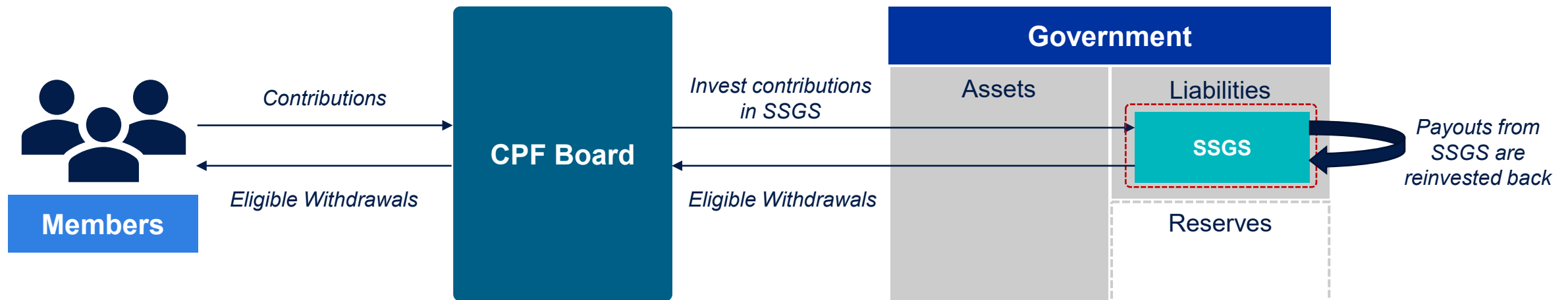
- CPF scheme provides fair and safe returns by **offering guaranteed floors on interest rates** and minimizing exposure to market risks. The interest rates are guaranteed by the Government's triple-A rating which is a result of the large net assets, and good long term returns of GIC.

# The CPF funds are invested into Special Singapore Government Securities (SSGS)

Non-tradable bonds issued primarily to meet the investment needs of the CPF

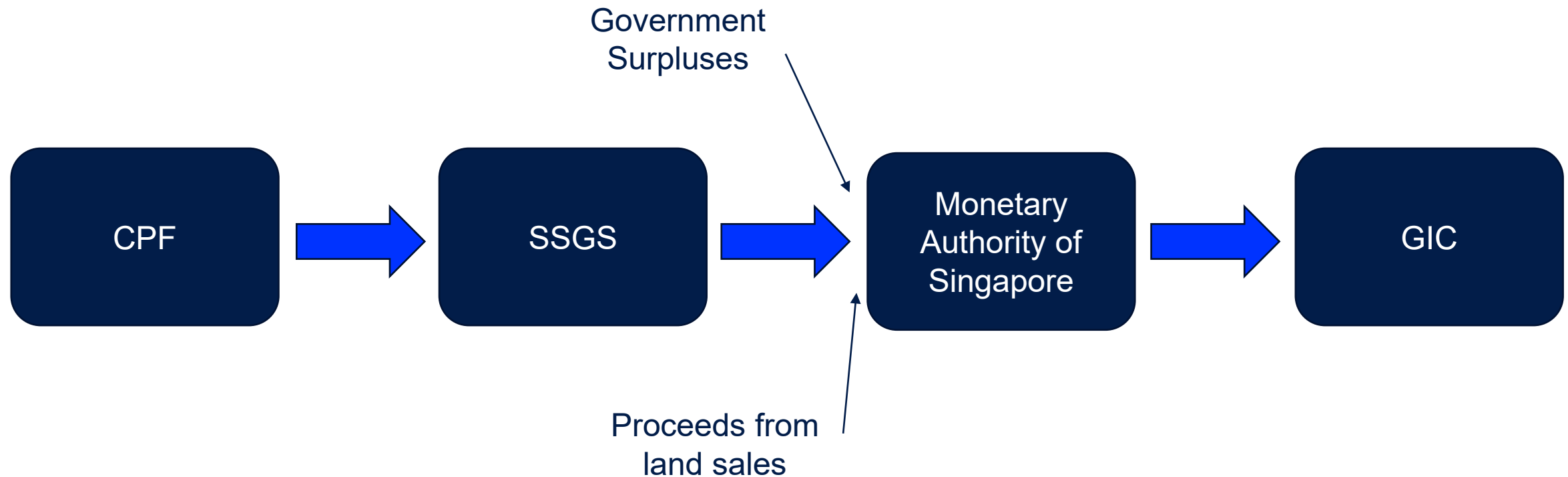
- The CPF Board invests CPF members' monies in Special Singapore Government Securities (SSGS). These are issued specially by the Government to CPF Board.
- The payout from the SSGS is pegged to the interest rates that the CPF Board is committed to pay its members. These SSGS bonds are guaranteed by the triple-A credit-rated Government, so the CPF Board faces no risk of not meeting its payout obligations.

## Role of SSGS



# Path to GIC

SSGS proceeds are one of several sources of funds that make up government excess reserves



# GIC's Role as a Fund Manager for the Government

To achieve sustainable long-term real returns to preserve and enhance the internal purchasing power of the reserves

## Assets Managed

- The assets received by GIC is essentially a single pool of Government assets comprising not just SSGS proceeds, but also SGS proceeds and the Government's unencumbered assets – past Government surpluses, proceeds from land sales etc

## CPF Liabilities

- Because of the Government acting as a guarantor for CPF liabilities through its large reserves, GIC can harvest greater risk premia that drive good long-term returns.
- Hence, in years when investment returns are poor, the reserves have helped to absorb any losses and ensure that the Government can meet its payout obligations.
- Conversely, in years when investment returns are strong, GIC helps to grow the Government's reserves

# Asset Allocation

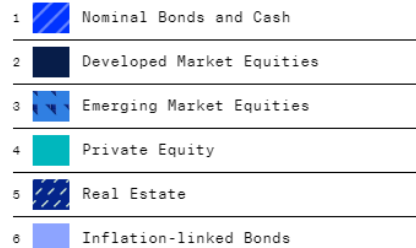
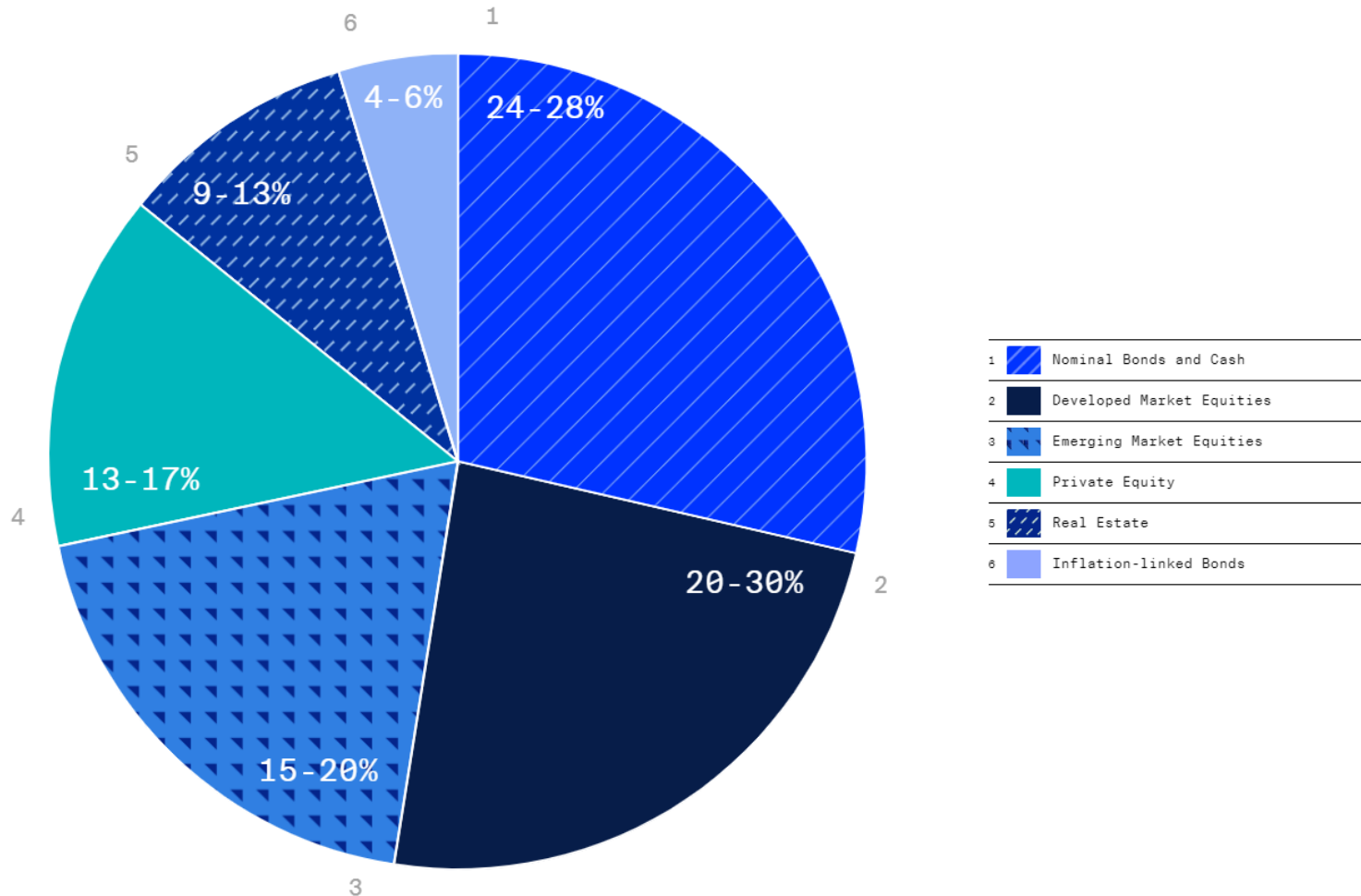


Figure 1. GIC's Investment Framework

## Policy Portfolio

- Six core asset classes
- Diversified sources of long-term real returns

## Active Portfolio

- Multiple active strategies
- Diverse sources of skill-based excess returns

## GIC Portfolio

- Total exposure of all investment activity
- Within risk limits set by the Client

Operating within the Client's risk tolerance

## Role of Policy Portfolio

- The Policy Portfolio represents GIC's long-term asset allocation strategy, which seeks to harvest risk premia in a balanced manner that is consistent with the Client's risk tolerance

## Total Portfolio Characteristics

- Total portfolio is more diverse, but overall risk profile is preserved.
- Long-term orientation creates ability to take more liquidity risk amongst other things

# GIC contributes back to the government budget for spending

## What is the Net Investment Returns Contribution (NIRC) framework?

- Allows the Government to spend up to 50% of the net investment returns on net assets invested by GIC, MAS and Temasek

$$0 \leq NIRC \leq 0.5 * \text{Net Long Term Real Return} * \text{Net Assets}$$

## Benefits of NIRC framework:

- Allows the Government to preserve the real value of the reserves over long term by spending sustainably. This is because up to half of the investment returns can be spent while the other half goes back and is reinvested for the future.
- NIRC can be used to cover any structural deficit in the Government's primary fiscal balance
- Accounted for about 20% of revenue each year

BUDGET BALANCE (Illustration)	
	OPERATING REVENUE
Less	
	OPERATING EXPENDITURE
	<b>PRIMARY SURPLUS / DEFICIT</b>
Add	
	<b>NIRC</b>
	<b>BUDGET BALANCE</b>