Ravi Menon: The wellness of investing - eating well, sleeping well, feeling well

Keynote remarks by Mr Ravi Menon, Managing Director of the Monetary Authority of Singapore, at SIAS 1st Master Series Investment Conference, Singapore, 11 July 2019.

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Mr David Gerald, Founder, President and CEO of Securities Investor Association (Singapore) (SIAS), ladies and gentlemen, good morning.

Let me begin by congratulating SIAS on 20 successful years as an effective champion for retail investors in Singapore.

You have been an ardent voice for investors – a voice of reason and balance, unwavering in looking out for the interest of investors, but always in a co-operative way with all stakeholders.

You have been a strong advocate for good corporate governance – engaging boards to strengthen governance practices, and facilitating a constructive dialogue between investors and listed companies.

You have also been a valued partner of MAS.

- You are a long-standing supporter of MoneySense, the national financial well-being programme, helping us to deliver financial education messages so that investors can make better informed decisions.

The journey has not been easy for SIAS. Funding is a perennial challenge. You have had to rely entirely on your own fund-raising efforts and the goodwill of donors and sponsors. This is not ideal from a long term perspective.

MAS is willing to support SIAS. We are working closely with SIAS and other stakeholders to come up with viable funding options, to achieve financial sustainability while ensuring SIAS' credibility as an advocate for investors.

It is important that SIAS continues and builds upon the good work it has done to-date. As they grow in financial sophistication, more Singaporeans are taking to investing. At the same time, the investment landscape is becoming increasingly complex and challenging.

The theme for today's conference is timely – the future of investing. I will not try to predict that future or, worse still, offer tips on what to invest in. There are many experts that SIAS has gathered, who can do that better than I.

Instead, I want to talk about how we might achieve wellness in investment, taking into account some broad trends and how MAS is working with the financial industry to create the investment ecosystem to make possible this wellness.

As with achieving physical and mental well-being, may I suggest that achieving wellness in investment comprises three things:

- *eating well*;
- *sleeping well*; and
- *feeling well*.

Eating well is about investing for good financial returns.

- While public markets will continue to be the mainstay of investing, the search for yield will inevitably take us to private markets.
- The rise of private markets has been a structural trend for about two decades now.
- Identifying opportunities in private markets while minimising risk will be a key theme in the future of investing.

Sleeping well is about securing adequacy in retirement.

- Demographics is one of the few trends we can predict with a degree of certainty.
- The ageing of the population will be a reality across emerging Asia in the coming years, with the exception of South Asia.
- Population ageing is happening alongside rising affluence – a combination that underpins strong demand for pension funds and retirement savings products, to provide peace of mind in one's golden years.

Feeling well is about investing with a purpose, to do good while doing well.

- Where we put our money drives action. And an existential issue demanding action on a global scale is climate change.
- Investing in sustainable assets imbues investment with a larger social purpose.

Let me elaborate on each of these dimensions of wellness in investment.

Eating Well: Investing for Yield in Private Markets

First, eating well – or investing for yield in private markets, namely private equity and venture capital investments, PE and VC in short, as part of a diversified portfolio.

Globally, private market capital has grown at more than double the rate of public capital in the last 20 years.

- For the first time since 2006–07, the value of listed US companies going private in 2018 exceeded the value of private companies going public, causing a net outflow from the US public markets.

An allocation to investments in private markets is becoming more common – and necessary – for a well-diversified portfolio aiming for decent returns.

Private market opportunities are growing strongly in Asia. The PE and VC industry in the Asia-Pacific[1] achieved record growth last year.

- PE/VC assets under management have risen by a compounded annual growth rate of 22% over the last five years, to reach nearly US$0.9 trillion in 2018[2].

Within the Asia-Pacific, ASEAN is emerging as a hotbed of PE and VC deal flow.

- 2017 PE and VC investments into ASEAN was US$24 billion, almost three times the deal flow in 2016[3] .
- Bain & Company estimates at least US$70 billion of PE and VC deals and more than ten unicorns emerging over the next five years in Southeast Asia.

The optimism is not unfounded.

- There is an explosion of entrepreneurial energy across ASEAN.

  - The region has seen the rapid rise of well capitalized, innovative businesses such as Grab, Go-Jek, and Tokopedia.
- With a growing middle class and widespread urbanisation, the consumer, technology, and health care related sectors are expected to grow rapidly in ASEAN.
- Growth companies in these areas are scaling up and internationalising, which requires raising new capital – with a growing volume coming from private markets.

Singapore is a natural gateway to private market opportunities in Asia.

- Singapore has a diverse ecosystem of 240 global and regional PE and VC managers. They managed S$220 billion of assets as of 2018, up 15% from the year before.
- Entrepreneurs from across Asia are coming to Singapore to raise capital for their expansion.
- Singapore itself has become a thriving launch pad for tech start-ups, and is a natural hunting ground for the next unicorn.

A vibrant PE and VC ecosystem is critical for the ongoing technological and digital transformation of Singapore and ASEAN.

- Deep and diverse private markets offer investors an opportunity to tap on the returns potential of Asia's growth companies.

This is why MAS has made the growth of the private market ecosystem a key plank in its industry development agenda, and put in place various supporting initiatives.

First, MAS has simplified the regulatory framework for VC managers.

- We have streamlined the admission criteria and business conduct requirements.
- This has facilitated faster time-to-market for VC managers, and increased access to financing for start-up and growth stage businesses.

Second, MAS is working with industry players to establish private market platforms in Singapore to help match Asian growth companies with international investors.

- Last year, Capbridge Platform obtained MAS' approval to operate its private securities exchange as a Recognised Market Operator in Singapore.

Third, MAS launched in November last year a programme to allocate US$5 billion of its own funds as part of its investment portfolio into the private markets asset class.

- These funds will be placed for management with top global PE and Infrastructure fund managers who are committed to deepening their existing presence or establishing a new and significant presence in Singapore.
- There has been keen interest from PE and infrastructure managers, and MAS has already funded a few managers who have met our investment and developmental objectives.
- MAS' total commitment to PE and infrastructure funds under this programme is currently just over US$550 million.

Fourth, MAS is partnering Enterprise Singapore to host *"Deal Fridays"* – which are basically curated events to match emerging growth companies with investors seeking private market opportunities.

- *Deal Fridays* began last month and will take place every Friday until the Singapore FinTech Festival cum Singapore Week of Innovation and Technology in November.

- Last year, MAS surveyed angel investors, family offices, and venture capitalists to try to get a sense of how much money is potentially on the table.
- By their own account, there is about US$12 billion in total available for direct investment into ASEAN start-ups during 2019-21.
- We hope that *Deal Fridays* can encourage the deployment of this capital.

Sleeping Well: Investing for Retirement with Ageing Demographics

Next, sleeping well – or securing sufficient funds for retirement. Safe investment is needed for retirement planning, as the world's population ages.

Populations are ageing across most countries.

- 2018 was a milestone of sorts: for the first time in human history, persons aged 65 or over outnumbered children under 5 years of age.
- The rate of demographic ageing will be particularly rapid in Asia.
  - The proportion aged 65 or over in East and Southeast Asia is expected to increase from 11% in 2019 to 24% in 2050[4] .

As people live longer and the workforce shrinks, individuals will face an uphill struggle to fund longer retirements.

Retirement planning should thus start young.

- Starting early gives you more time to reap the benefits of compounding interest.

Financial institutions are providing a range of retirement solutions.

- Insurers are selling products that encourage regular savings, in order to receive a steady stream of income during one's retirement years.
  - According to Life Insurance Association, the number of such policies taken up last year in Singapore increased by about 50%.
- There are also unit trusts that provide a regular monthly dividend.

MAS has issued the Singapore Savings Bonds, or SSB in short, to provide a flexible risk-free investment option for investors to diversify their portfolio for retirement.

- Last year, we doubled the individual limit for holding SSBs to S$200,000, due to the increased appetite for safe investments.

Across Asia, the focus is shifting from pure wealth creation to wealth preservation and wealth bequest.

- Succession planning and intergenerational wealth transfer have moved up the agenda.
- A growing number of affluent families are consolidating their wealth through trusts and family offices, to optimise investment and legacy planning.

Singapore is an ideal place for families to set up such structures.

- There is political and economic stability, a clear regulatory regime, a comprehensive network of tax treaties to avoid double taxation, and a robust ecosystem of professional services.
- The number of family offices in Singapore has increased four times between 2016 and 2018.
- We continue to see strong interest from families to set up in Singapore

MAS is working with the industry to strengthen Singapore's value proposition as a centre of excellence for managing family wealth.

- We are raising the level of professionalism of family wealth advisers by partnering institutes of higher learning to develop and provide customised training.
- We are also strengthening networks between family offices in Singapore, to facilitate mutual learning and joint investments.

Feeling Well: Investing for Sustainability amidst Climate Change

Finally, feeling well – or investing to align with personal or corporate values, to make a positive impact, to support a larger social purpose.

A growing number of investors are looking at investment through the lens of environmental sustainability – both with a view to managing climate-related risks as well as to support efforts to reduce carbon emissions.

From a risk perspective, climate change can impact investments over the long term, either directly or indirectly.

Weather and climate-related events can potentially result in direct investment losses.

- Extreme weather events like floods can impair asset values, at least in the short-term.
- Changing climactic conditions – like rising sea levels – can have much more lasting effects on the value of exposed assets.

Dealing with catastrophic events is not new to financial markets. And not all catastrophic events can be attributed to climate change. But the frequency and intensity of natural catastrophes are increasing.

- According to the UN Economic and Social Commission for Asia and the Pacific (UNESCAP), the number of catastrophic events in the Asia Pacific rose from an average of 44 annually in the 1970s to 126 in the early 2010s.

Investors cannot ignore the implications of climate change.

- CDP Worldwide, an international environmental non-profit, estimates that a group of the world's largest companies potentially faces US$250 billion in asset write-offs within the next 5 years due to climate change related risks.

The indirect effects on investments come from policy changes and technological advances aimed at meeting climate mitigation goals.

- Countries that signed up to the Paris Agreement in 2015 have pledged to limit the increase in global average temperatures to between 1.5 degrees Celsius to 2 degrees Celsius above pre-industrial levels.
- What does this potentially mean in practice? According to the International Energy Association (IEA), limiting global warming to 1.5 degrees Celsius means that renewables have to make up 70 - 85% of electricity production by 2050. It was only 23% in 2015.

This scenario is not far-fetched.

- Technological advances and increases in production capacity have dramatically reduced the cost of renewable energy sources like wind and solar.
- If R&D on long duration energy storage technologies is successful, it will solve the problem

of intermittency that currently hinders the scope for renewable energy to supply electricity round the clock.

- Changes in technology that make renewables economically viable could potentially leave many traditional energy assets stranded – and this has serious implications for investors.

Changes in government policy such as higher carbon taxes will also have profound investment implications by altering the structure of industries and businesses.

- This is not something happening far from home.
- A study by the Carbon Tracker Initiative estimates that as much as US$60 billion of coal assets across Southeast Asia can no longer yield the expected economic return in the next decade due to tighter environmental policies and competition from cheaper renewable energy.
- Conversely, as climate change mitigation efforts intensify globally, environmentally responsible companies can be expected to outperform their benchmarks.

Besides technological advances and policy changes, growing consumer awareness of environmental issues will also affect companies' bottom lines and thereby the risk-return calculations of investors in these companies.

Finally, as I mentioned earlier, beyond the cold calculation of climate-related risks and returns, many investors want to invest in a way that contributes to leaving behind for future generations a planet that is habitable, green, and pleasant.

Sustainable investing is becoming a live issue in Asia. The story of Asia's huge infrastructure needs is well-known.

- The Asian Development Bank has estimated that developing Asia needs to spend US$1.5 trillion annually on infrastructure up to 2030.
- What is less well known is that climate mitigation and adaptation costs will add another US$200 billion to the region's annual investment needs.

This is a significant load. It will require a radical change in the way public sector policies, private sector financing, and investment decisions are made.

Ensuring sustainability is very much a part of Singapore's ethos. Making the best use of limited resources has, for a long time, been a key part of our nation-building process.

We must now make our financial sector, asset markets, and investment landscape conducive to sustainability.

- MAS is working on a comprehensive, long-term strategy to make sustainable finance a defining feature of Singapore's role as an international financial centre, just as wealth management and FinTech have become.

We have made some early moves to promote sustainable investing and mobilise private capital for environmentally-friendly projects.

- The introduction of the Green Bond Grant scheme two years ago is an example.
- The grant aims to level costs associated with issuing a green bond versus that of a conventional bond and to promote the adoption of internationally accepted standards on sustainability.
- To-date, some S$6 billion worth of green bonds has been issued here by local and foreign companies.

This year, MAS expanded the Green Bond Grant Scheme to include social and sustainability bonds.

- The grant is now renamed as the Sustainable Bond Grant Scheme.
- We also lowered the minimum issuance size requirement for the scheme, which will allow more qualifying issuers to gain access to the grant.

But there is much more to do, to make Singapore one of the premier global centres for sustainable investing. Let me quickly cite two priorities.

First, enhancing the disclosure of climate-related risks and opportunities. This is necessary to enable investors to channel their funds to sustainable enterprises and projects.

- The Singapore Exchange (SGX) has introduced the comply-or-explain sustainability reporting requirement for listed companies in 2016.

Second, building industry expertise in sustainable finance.

- We need to enhance the level of knowledge in sustainable finance amongst industry professionals as well as companies that are reporting on their sustainability practices or looking to issue green bonds.
- MAS is working with partners, such as the Institute of Banking and Finance, SGX, the Asia Sustainable Finance Initiative and our universities, to introduce capacity building courses in sustainability for finance professionals and officers of listed companies.

Conclusion

Let me sum up.

Investing – by its very nature – is an activity that focuses our mind on the future. I have sketched three probable investment themes, by no means exhaustive and by no means certain.

The rise of private markets offers an opportunity for investors to achieve higher returns within the context of a well-diversified portfolio that also includes traditional assets. If we can manage the higher risks of investing in these markets, we can eat well.

Ensuring financial security in old age is becoming a growing imperative amidst demographic change. If we can start saving and investing for retirement early enough and wisely enough, we can sleep well.

Mitigating as well as adapting to climate change is likely to be one of the central issues in the future. If we can invest with a view to that future, recognising its risks and providing the incentive for positive change, with a heart for future generations, we can feel well.

I wish you fruitful deliberations on achieving a healthy, balanced, and fulfilling investment life.

And I wish you well.

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1 Includes Southeast Asia, Greater China, India, Australia, New Zealand, South Korea and Japan

2 "Asia-Pacific Private Equity Report 2019"; Bain & Company

3 "Southeast Asia PE & VC: Investment Activity May 2018", SVCA

4 "World Population Prospects 2019"; United Nations, Department of Economic and Social Affairs