

The following interview with HH Sheikh Ahmed Bin Zayed Al Nahyan, Managing Director of the Abu Dhabi Investment Authority, was published in Germany's business daily newspaper Handelsblatt on 11 January, 2010.

The interview was conducted by Michael Backfisch, Middle East Bureau Chief of Handelsblatt.

1. To many people, there is still a lot of mystery around sovereign wealth funds and how they operate. How would you define ADIA?

The SWF label can be confusing because it is used broadly to cover dozens of institutions which actually have very different objectives, strategies and styles.

We prefer to be seen simply as a globally-diversified investment institution, with the difference being that our owner is the Government of the Emirate of Abu Dhabi. But I like to think that ADIA is unique. First and foremost, we have a truly long-term focus and are able to build strategies that aim to outperform the market over an extended period. We are also one of the most established funds and have been refining our approach to investing over more than 30 years. And lastly, we are fortunate to have not only a large number of very talented in-house professionals, but also close relationships with many world-class external managers whose combined expertise gives us a global perspective and insights into market flows and trends.

ADIA's sole mission, which has not changed in over 30 years, is to secure and maintain the current and future welfare of the Emirate of Abu Dhabi. This ensures that our investing strategy stays focused on long-term trends rather than the ups and downs of individual cycles.

2. The global economy has been hit by an unprecedented crisis. What further risks do you see coming up?

We should first give credit to the remarkable efforts by governments and regulators to steer us through the most dangerous stages of this downturn. There is no question that their quick actions helped to protect the global financial system.

But while attention now is on the recovery, we can't lose sight of the many substantial risks that still exist. Many of these, such as high government deficits and high unemployment, are already well known. But protectionism also remains a threat.

3. Could you give us an example of what you mean by protectionism?

If we've learned anything at all during this financial crisis, it is that financial systems are closely and globally interconnected, and that more than ever we are dependent on each other for stability and success. For that reason, it is essential to maintain the free flow of capital between countries, and

ensure that cross-border investing is not stifled by restrictive measures that may be popular within individual markets in the short term but ultimately leave us all worse off.

The world economy is still in a fragile state, and we must not jeopardize its recovery and future economic growth by building barriers to investment and shared success.

4. What has to be done to prevent further shocks of that magnitude?

The priority for now should be restoring confidence and growth to the global economy. But there are also structural issues that should be addressed to help protect against future crises.

It is clear that the financial regulatory architecture has not kept up with the increasingly global and interconnected nature of financial systems – or the pace of innovation.

We support the ongoing discussions taking place around the world on issues such as the need for greater controls on the use of leverage, mechanisms to ensure appropriate pricing of risk and increased transparency in all credit instruments, among other areas. In the case of some of the more complex financial products developed in recent years the risks have also been too difficult to quantify, leading to unexpected consequences during severe market shocks. This is why ADIA has avoided them.

While governments and regulators have important responsibilities, the same also applies to financial institutions themselves. Regulations and controls will only work if market participants accept that change is needed and don't revert to near-sighted strategies that will leave them overly vulnerable when there is another market shock.

5. There has been growing concern in recent weeks about the possibility of government defaults, with Greece, Iceland and even your neighbouring Emirate, Dubai, coming under scrutiny. Do you believe there is a risk that similar shocks might come up in other parts of the world?

While I don't wish to comment on specific situations, the world has clearly been through a very difficult time and markets remain sensitive to any news that could hamper the recovery. The key is for all parties - whether we are talking about governments, companies or investors themselves – to respond in a thoughtful and measured way to issues when they arise so that they can be dealt with calmly and not inadvertently made worse.

6. What consequences will ADIA draw from the financial crisis?

As mentioned before, we will continue to follow a highly-diversified investing strategy that is focused on long-term trends in order to best serve the current and future interests of Abu Dhabi. But I think the latest downturn has also served as a powerful reminder to all investors of the importance of risk

management, and of having controls that act as a brake on excessive risk taking during bull markets. At ADIA, taking a long-term view is at the core of everything we do. Take, for example, the issue of compensation. We believe in rewarding employees based on various factors that may include beating return targets but also their broader contribution to the organisation as a whole. Our compensation program has always had a smaller variable component than many investment institutions but a greater emphasis on fixed pay and various other benefits. This keeps us competitive in attracting world class talent, but also encourages our employees to focus on what's best for ADIA over the long-term rather than looking for ways to boost their short-term personal gains.

7. Will ADIA become more risk averse in the future?

We believe in managing risk, not avoiding it. Our strategy always begins by identifying an acceptable level of risk and then looking for ways within those parameters to maximise returns over the long term. This approach has served us well. But it is crucial to admit mistakes where they exist, and work to fix them. Today's global financial environment is dynamic and financial flows move faster than ever before, and we all need to be flexible enough to recognise change and adapt to it. I am very proud of how our people have handled the events of the past 18 months, but there is always room for improvement. You can be sure that, like everyone else, we are looking closely to identify areas where strategies perhaps did not work as well as they could have, and will refine our approach where needed.

8. Since March 2009, the global stock markets have been recovering. To what extent did these gains outweigh ADIA's losses due to the financial crisis?

Our investment strategy is always to look beyond individual cycles and focus on capturing long-term growth trends, even during economic downturns as severe as that of the past two years. But, naturally, we also have the ability to make short-term adjustments that minimise the impact of falling markets and allow us to capitalise on any recovery. That is why in early 2008, as equity markets were coming off their peaks, we took the decision to raise our level of liquidity. Early in 2009, meanwhile, we began cautiously increasing our exposure once again to higher growth markets, which proved effective as economic conditions improved and markets recovered lost ground.

Together, these actions allowed us to beat our own performance expectations and to compare favourably with the published results of other investment institutions.

9. Citigroup recently issued a press release stating that ADIA had filed a claim in arbitration citing "fraudulent misrepresentation" over its purchase of \$7.5 billion of Citigroup securities in late 2007. Can you provide any more details on this claim?

ADIA's response to Citigroup's press release was that: "It is the policy of ADIA to pursue its legal rights fully. ADIA declines to comment further due to binding confidentiality obligations, which ADIA intends to respect."

I trust you can appreciate why we can have no further comment at this time.

10. Coming out of the financial crisis, which investment philosophy will ADIA pursue in 2010?

Our philosophy is unchanged. This is not the first major downturn that ADIA has experienced and it won't be the last. Our success is based on generating steady results over time through diversification strategies focused on long-term value creation. We won't seek management control of companies in which we invest or invest for anything other than purely commercial reasons.

We believe in "active beta," which involves using extensive research and analysis to develop a vision of where the world is heading over the coming 10 – 15 years and positioning ourselves appropriately to take advantage of those structural trends. This is an intense process involving more than two dozen asset types with fixed weights that reflect ADIA's vision.

11. Has the financial crisis led to a gradual change or shift of ADIA's portfolio?

It's a fact of life that market downturns will occur from time to time. This is why we put so much time and thought into diversifying our exposure to different market risks, while also seeking to capture long-term market trends rather than trying to predict the timing of individual cycles. These factors all come together to form our shared long-term view of the world, or "neutral benchmark," which comprises allocations with fixed weights to more than two-dozen asset classes and sub asset-classes. We adjust this only when our view of the long-term outlook for the global economy changes in a fundamental way

But while this is under constant review, great caution needs to be exercised before making long-term portfolio adjustments, especially in the middle of a major downturn when visibility is significantly reduced. Instead, we have the ability in extreme situations to deviate on a temporary basis from our agreed weightings across asset classes in order to further reduce the impact of cyclical downturns. This approach served us well during the events of the past 18 months.

12. In the press ADIA's global assets range between \$300bn and US\$800bn. Which figure is closer to the truth?

As a matter of policy ADIA does not disclose its assets under management. However, H.H. Sheikh Khalifa bin Zayed Al Nahyan, the President of the U.A.E., Ruler of the Emirate of Abu Dhabi and also ADIA's Chairman, has stated publicly that some of the highest estimates seen in the media have been exaggerated. I would just point out that ADIA's reputation has been built over the past 30 years, not on

our size alone, but through our behavior as a prudent and responsible investor and trusted partner. Our reputation is our most precious asset.

13. What average return has ADIA achieved since 1976 (some press reports speak of 10% or so)

While that is not a number we have disclosed, I am pleased to say that ADIA has outperformed our benchmark, or the expected return targets we have set for ourselves, over any meaningful performance measurement period.

14. What is ADIA's asset allocation at this point in time?

Historically, our allocation to global equities has averaged between 40% - 60%, with a further 15% - 30% in fixed income and the remainder divided between other asset classes including real estate, private equity, alternative investments and infrastructure.

a) Due to the dramatic slide of real-estate assets on a global scale, are investments in that sector still a good bet?

The diversifying characteristics of real estate were obscured in the recent downturn because valuations were driven higher by the same use of excessive leverage that led to other asset bubbles. Going forward, we expect returns in the real estate space to be delivered once again by income streams and the location and development potential of specific properties. These are characteristics that ADIA has always focused on with its real estate investments.

More broadly, real estate as an asset class is interesting because it offers a combination of equity and bond characteristics with the added benefit that the value of specific investments can be enhanced through active management. It also provides a built-in hedge against inflation through rental appreciation.

b) How do you see alternative investments such as hedge funds? Are they still on your radar screen?

Absolutely. Alternative investments are an important element of any diversified portfolio. In fact, private equity and real estate have for some time been stand-alone asset classes in their own right within our portfolio.

At ADIA, we define alternatives as hedge funds and managed funds with non-directional strategies that are not correlated to traditional equity strategies. Our belief is that alternatives as an asset class

should be truly alternative in order to diversify the portfolio, and that is why our performance in these areas was substantially better during the downturn than the market as a whole.

As our investments in alternatives are mostly through external managers, we also constantly examine and review new and existing managers according to numerous criteria.

Our hope and expectation is that managers will learn from the events of the past year and address the concerns of many investors on issues such as fees, lock-up periods and transparency.

15. It is said that around 60 percent of ADIA's portfolio is indexed. If this were correct could you name a couple of indices which are a benchmark for you?

It is correct that around 60% of ADIA's assets are invested in index-replicating strategies. In equities, we use S&P indices in the U.S. and MSCI indices for the rest of the world. In fixed income we use our own customised form of various indices such as the Barclays Corporate Bond index and the JP Morgan Government Bond Index, as well as the Barclays Inflation Linked Bond index.

16. The oil price has been very volatile over the past two years. How much does that affect ADIA's revenue flow?

The inflows that ADIA receives from the government are dependent on numerous factors, including commodity prices and the government's budget commitments. We do not rely on revenue from the Government to meet our commitments or investment objectives.

a. Do lower oil prices result in a different investment pattern?

No. As above.

17. Does ADIA have some short-term obligations to contribute to the UAE budget due to shortfalls in the wake of the crisis?

ADIA is not involved with nor has any visibility on matters relating to the spending requirements of the Government of the Emirate of Abu Dhabi. However, the Abu Dhabi government can, at any time, request funds from ADIA to meet its short-term needs, and this has happened a few times in our history. But how and for what purpose those funds are used is strictly a private matter for the government.

Our responsibility is to manage ADIA's portfolio in such a way that ensures we have sufficient cash and other liquid investments to meet any such request from the Government without having to resort to selling other assets, especially when markets are weak.

18. Are there some long-term obligations for ADIA to channel a fraction of its revenues into the UAE health or pension sector, as is done by Norway's sovereign wealth fund?

Not directly, although as I mentioned above the Government of Abu Dhabi is fully entitled to draw on funds managed by ADIA to support its budget if needed. But ADIA's role in a situation such as this would be confined solely to providing the requested funds. As a matter of practice, ADIA does not invest in the U.A.E., although it's important to remember that the Government has other investing arms, some of which have mandates that allow them to invest in Abu Dhabi or UAE-based projects.

19. ADIA has an array of stakes in financial services companies. In view of the global crisis are international banks still an attractive investment?

Financial institutions, and in particular commercial banks, act as the circulatory system of the global economy and that function will continue regardless of the challenges they face in the short to medium term.

As a diversified investor we will always have holdings in banks and other financial institutions. The challenge lies in valuing the sector in a way that factors in the continued economic uncertainty and the possibility of lower returns in the future due to more conservative business models. These are complex issues that are still evolving, so we will continue to monitor the sector closely and adjust our long term valuation methodology accordingly.

a. Could you imagine buying a big stake of a European bank, for example Deutsche Bank?

ADIA does not seek control or active management of the companies in which it invests, so acquiring anything more than a minority stake in a bank would not fit with our strategy.

20. How does ADIA distribute its assets with regard to different regions?

- a) U.S.
35-50%
- b) Europe
25-35%
- c) Asia
10-20%
- d) Emerging Markets
15-25%

21. Will ADIA put its future focus more on emerging markets, especially Asia?

ADIA has invested in emerging markets since 1976, and we remain positive on the long term outlook for many of these markets and particularly those in Asia. Unlike past recessions, a number of emerging markets are well positioned this time due to high government reserves and personal savings, relatively low leverage in the banking system and the potential for significant growth in domestic consumption. Our view is that emerging market economies are likely to outperform those of developed economies over the medium-to-long term, and this has been reflected in our asset allocation.

But it is important to remember that emerging markets remain a relatively small part of the global pool of investable assets so there is a limit to how much we can allocate to them without building concentrations of risk. The fact that so many global investors are focused on these markets also means there is potential for valuations to be stretched, which is something we monitor constantly.

22. The US and Europe are heavily hit by the financial crisis. Does that mean ADIA will decrease its investments there?

As the largest developed markets, the US and Europe are of course an integral part of any diversified investor's portfolio, with different risk – return profiles from other regions.

We continue to see significant, long-term investment potential in these markets, although our emphasis will always be on identifying specific sectors and themes that offer the best risk - return profiles.

a. How appealing is Germany as an investment location?

Germany is a highly productive, innovative market with world class companies in a number of sectors such as chemicals, engineering and autos. It also has the benefit of low consumer debt and high savings rates, which should help support the economy as it continues its recovery.

b. Could you tell us how much of your investments go to Germany?

ADIA's exposure to individual markets is broadly in line with their weightings within regional indices.

c. Which branch of your business in Germany do you find potentially interesting for ADIA: automotive, mechanical engineering, energy, chemical?

As stated above, Germany has strengths in a broad array of sectors. But, for us, the sector in which a company operates is secondary to more fundamental questions around valuation and risk.

d. There have been a number of high profile deals involving SWFs in the past year, such as the investment in Daimler by Aabar. Is ADIA on the lookout for opportunities like this?

We have a publicly-stated policy of not seeking active management, or control, of the companies in which we invest. Our investment strategy is designed to produce steady returns over many years through diversification, rather than by building concentrations of risk through a few large transactions. While there are some investments where we may occasionally take larger positions than others - such as in real estate - the rumours that circulate occasionally about ADIA planning takeover bids or looking to buy controlling stakes in one company or another are invariably a case of mistaken identity.

e. Could you imagine acquiring shares of a blue chip company, or would you rather go for small cap companies?

As a diversified portfolio investor, ADIA has exposure to thousands of companies around the world of all sizes, broadly in line with their weightings in indices. Most of our equity investments are in publicly-listed equities where we typically own less than 5%.

The size of a company is less important than other characteristics such as its risk / return profile.

23. Some sovereign wealth funds have said that in future they may focus more on the Middle East. Could that also be an avenue for ADIA, even though it exercised restraint in the past?

ADIA already has exposure to Middle Eastern markets in line with their weightings in global indices and we remain open to opportunities. But ADIA's primary focus is to invest outside the region as a means of diversifying from the relatively correlated, commodity-driven economies of the Middle East. It is also important to note that we do not, as a matter of practice, invest within the UAE. There are other Abu Dhabi government entities that fulfil that role.

24. So far ADIA has mostly bought up to 4.9 percent of companies' stakes in order to avoid public notice. Can you imagine acquiring higher stakes in future and possibly getting seats on the boards?

Public attention is not a factor in our investment strategy.

We have no expertise in managing businesses directly, and have made it clear that we have no interest in doing so. As a matter of policy, ADIA does not exercise its voting rights except on rare occasions to protect our financial interests or against motions that may be detrimental to shareholders as a whole. This approach reduces the need for us to buy large stakes in companies or to take board seats.

ADIA's philosophy since its creation has been to build a broadly diversified portfolio of investments. Our expertise lies in areas such as portfolio construction, investment strategies, selection of managers and identifying long-term trends that will enable us to generate superior returns. We express our view on a company by either investing in it or not.

We have worked very hard over the past 30-plus years to build open and trusted relationships with governments and regulators around the world that are based on these simple principles.

25. In the past ADIA invested mostly in US dollar—denominated assets. Will you stick to that stance or will you put your eggs in other baskets like the euro?

This statement is not accurate. Since its inception, ADIA has always had a highly diversified portfolio of assets spread across different parts of the world. Our exposure to currencies is dictated by the underlying investments we have in different countries or regions.

a. Could you tell us roughly how your currency allocations look at this point in time?

As above, our currency exposure is determined by our asset allocation.

b. If ADIA and other sovereign wealth funds give up their US Treasuries, the dollar would suffer quite a bit. Is that one of the reasons why these funds cling to US Treasuries?

I can't speak for other funds, but my view is that US Treasuries are still the most liquid benchmark bonds in the world and will remain an important diversification tool. This was illustrated in 2008 and the early part of 2009 when Treasuries were one of the best performing assets in our portfolio.

26. What is the investment horizon of ADIA?

As a long term investor, we can afford to be patient and value assets on an intrinsic value and our expectation of future trends rather than an arbitrary investment horizon. Of course, individual investments will be bought and sold all the time. That is what portfolio managers do. But our allocation to asset classes only changes when we change our fundamental view of the world and how it will look over many years.

27. Is there co-operation and co-ordination between the UAE sovereign wealth funds? For example, the Abu Dhabi Investment Council, Mubadala and IPIC invest regionally and internationally. ADIA predominantly invests internationally. How do you avoid overlapping investments?

Under Abu Dhabi law, ADIA carries out its investment programme independently and without reference to the Government of Abu Dhabi or other entities that also invest on the Government's behalf. For this reason, the potential exists for our investment strategies to overlap in some areas although the specific mandates under which ADIA and other Government entities operate are sufficiently different to keep this risk to a minimum.

28. In recent years there was a big discussion in the US and Europe if sovereign wealth funds should be welcomed or not. Some people suspected there might be an unwanted political leverage involved. Has that tension subsided?

I think we have seen two parallel events taking place. The first has been an improved understanding of SWFs, how they invest and why, which has helped to ease concerns that may have existed in some quarters. And the second has been a growing awareness of the important role that SWFs as long term investors can play as a stabilizing influence on markets.

But this is a process that is ongoing and requires openness and trust on both sides. In 2008, ADIA was elected co-chair alongside the IMF of the International Working Group of 26 sovereign wealth funds, which produced a set of generally agreed principles and practices that reflected how their investments are made. Among other things, the SWFs made clear that their investments are driven solely by financial and economic considerations, and not politically motivated in any way.

ADIA has enjoyed an excellent and open relationship with governments, regulators and investment partners around the world for more than 30 years and we expect that to continue.

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