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Abu Dhabi Investment Authority

ADIA

2020 Review
Prudent Global Growth

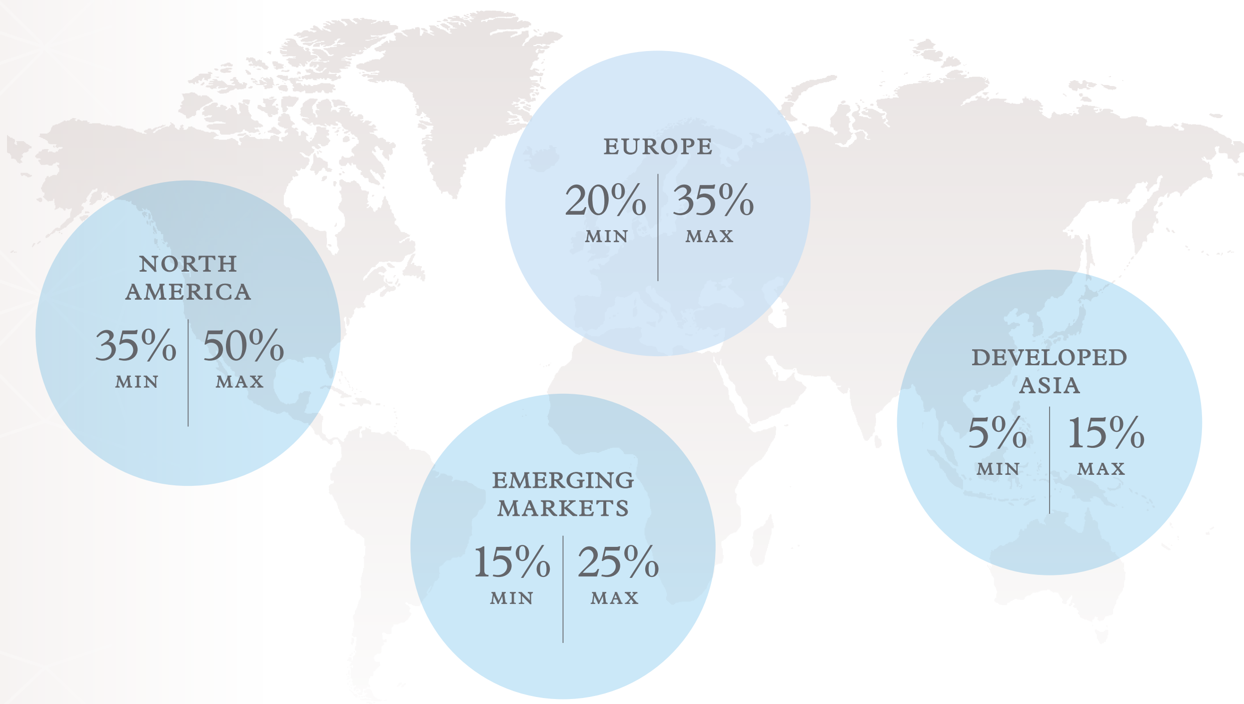
Real Progress

Contents

Our Mission

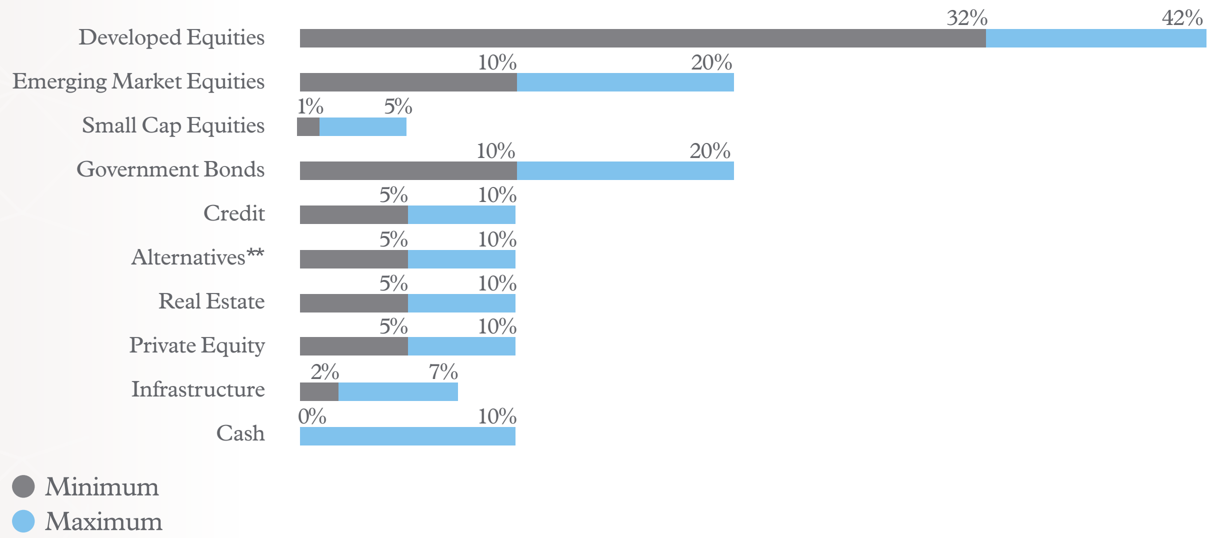
ADIA's mission is to sustain the long-term prosperity of Abu Dhabi by prudently growing capital through a disciplined investment process and committed people who reflect ADIA's cultural values.

Long term strategy portfolio by region*



* ADIA, as a matter of practice, does not invest in the UAE.

Portfolio by asset class
*Long-term strategy portfolio**



* The above denotes long-term strategy portfolio ranges within which allocations can fluctuate; hence they do not total 100%.
** Alternatives comprises hedge funds and emerging opportunities.

Letter from Hamed bin Zayed Al Nahyan

MANAGING DIRECTOR

There are few parallels in modern history for the scale of socio-economic upheaval that swept across the globe in 2020. Rarely has a single peacetime event dominated the lives of so many as the initial outbreak and then rapid spread of Covid-19.

It will take time to fully assess which of the many changes to the way people lived and worked in 2020 will represent permanent shifts, and which will return to pre-pandemic norms. What is already clear is that, taken in aggregate, the immediate impact of the Covid-19 contagion has been both broad and unevenly distributed, and its effects will be felt for years to come.

The tragic loss of life to the pandemic offers a stark reminder that countries, economies and businesses are all built on human foundations. Despite this and the numerous other hardships endured during 2020, the year also reminded us of people's resilience and ability to innovate. The most apt example came with the successful development of several Covid-19 vaccines in less than a year, a timeframe not previously considered possible and a remarkable scientific achievement.

Government mandated lockdowns in the early months of the year caused economic contractions in most countries. China was able to lift its lockdown early and saw its economy rebound quickly under the impetus of renewed credit policy support. Other countries did not fare so well. Multiple waves of infection led to intermittent lockdowns, which delayed and slowed domestic recoveries. As a result, real global GDP growth collapsed from around 2.8% in 2019 to an estimated -4.4% in 2020. This represented the deepest contraction in decades, dwarfing the 2008 global financial crisis.

Equity markets fell sharply as the pandemic unfolded in early 2020, while government bonds benefitted from their safe haven status. In just a few months, most equity markets dropped more than 30% and overall liquidity deteriorated significantly. Such was the impact of the pandemic that markets would have fallen faster and further had it not been for massive and concerted action from global policymakers.

Counter-cyclical fiscal and monetary policies were introduced on an unprecedented scale, while public health measures prevented many households and corporates from spending and investing.

"Throughout the crisis, ADIA remained focused on its mission of prudently managing capital on behalf of the Government of Abu Dhabi."

This multi-dimensional policy response combined with high levels of accumulated savings to rapidly reverse market sentiment: equity markets recouped their losses quickly and, by the end of 2020, most had posted strong year-on-year returns. During that rebound, bond yields remained low on central banks' pledges to maintain accommodative policies for the foreseeable future.

The impact of Covid-19 was felt unevenly across sectors. Although lockdowns weighed heavily on transport, retail, hospitality and services in general, they were ultimately more benign for a number of others including housing and industrial goods. Companies at the frontier of digitalisation, including virtual payments, connectivity, online entertainment and deliveries, performed extremely well.

Throughout the crisis, ADIA remained focused on its mission of prudently managing capital on behalf of the Government of Abu Dhabi. To do so, it was necessary for ADIA to react on several fronts. As an employer, it worked to maintain the safety and wellbeing of its employees and their families. As a responsible financial market participant, it enacted robust, detailed plans to ensure the continuity of operations. And as an investor, ADIA moved with clarity and purpose to navigate a situation that had no precedent.

Letter from Hamed bin Zayed Al Nahyan *Continued*

ADIA has always prioritised the building of resilience into both our portfolio and our organisation. This requires careful planning and a clear strategy, balancing the need to manage downside risks in periods of volatility while remaining ready to capitalise on the opportunities that emerge during times of turbulence. This trade-off is at the centre of ADIA's investment strategy, and we were able to efficiently navigate market turmoil to position ourselves for the rebound sparked by the massive policy intervention from fiscal and monetary authorities across the globe.

As at 31 December, 2020, ADIA's 20-year and 30-year annualised rates of return, on a point-to-point basis, were 6.0% and 7.2% respectively, compared to 4.8% and 6.6% in 2019. These increases can be attributed to both the years falling out of the calculations as well as performance in 2020, underlining our preference for focusing on long term trends.

ADIA also took the opportunity in 2020 to update certain ranges within its long term strategy portfolio, reflecting changes that have been underway for some time. ADIA's investments in Private Equity and Infrastructure have grown over a number of years and this has led to increases in the allocation bands for both asset classes: Private Equity has increased from 2%-8% to 5%-10%, while Infrastructure has increased from 1%-5% to 2%-7%. On a geographical basis, the band for Developed Asia has reduced from 10%-20% to 5%-15%, consistent with changes to the region's relative weighting in global indices.

OUTLOOK

The Covid-19 pandemic and policymakers' responses to it will shape the global economic landscape for years to come. Governments have been forced to run deep fiscal deficits and have accumulated sizeable public-debt burdens. Inflation rates remain subdued but fiscal stimulus, strong monetary growth and demographic trends could prompt a comeback.

Meanwhile, with government bond yields at or very near to their all-time lows, investors will continue to look for ways to expand their investable universe. For the past thirty years, government bonds have offered a powerful combination of market liquidity, portfolio protection and interesting returns, making them an essential tool in portfolio construction. While they will continue to play a role, most investors will also be looking to expand their toolbox and rethink how they approach diversification.

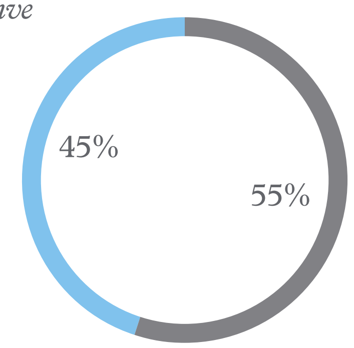
As with any great shock to the status quo, the pandemic has also acted as a catalyst to accelerate a number of important themes in global financial markets.

The speed with which businesses were able to integrate new technologies and operating processes in the early weeks of the crisis augurs well for future productivity gains and, with it, long-term growth prospects. More specifically for investors, it is clear that technology continues to drive rapid and fundamental changes to the business of investing. Innovations that may once have provided years of competitive advantage now often fade in months or even weeks. In parallel, the global economy is facing a period of slower growth after more than a decade of rising asset prices, and now post-pandemic indebtedness. How investors adapt to the increased speed and fleeting nature of potential sources of outperformance will play a large role in defining those that prosper in this new environment.

For ADIA, this has meant a multi-year focus on incorporating more systematic investment processes, leveraging advances in computing power, data analysis and artificial intelligence.

Portfolio Overview

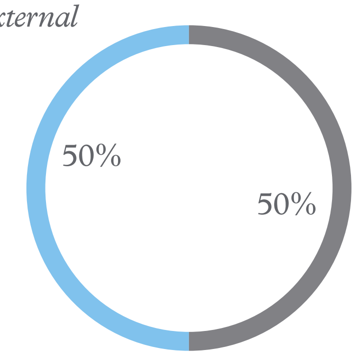
Active versus Passive Management



- Active
- Passive

Portfolio Overview

Internal versus External Management



- Internal
- External

One output of this work in 2020 was the creation of a new investment group within the Strategy & Planning Department tasked with applying a systematic, science-based approach to developing and implementing investment strategies. A number of other investment departments also advanced plans to adopt a more data-centric approach to their work. Detailed research is underway to explore non-directional strategies, providing exposure to additional risk factors beyond the equity markets and adding additional layers of resilience to our portfolio.

The past year saw significant developments in the global discussion on climate change. As the world considered how best to address and then recover from the pandemic, it became clear that many people viewed this period as an opportunity to accelerate progress towards a more equitable, cleaner and safer environment. The tone of public sentiment was reflected in financial markets, as the depth and maturity of sustainable investing options continued to grow.

> *"...for investors, it is clear that technology continues to drive rapid and fundamental changes to the business of investing. Innovations that may once have provided years of competitive advantage now often fade in months or even weeks."*

For a number of years, ADIA has actively considered the potential impact of climate change on our portfolio, including the formal assessment of climate change factors for all new investments. We have also committed capital to a number of opportunities set to benefit from the move to a lower carbon economy. ADIA remains a committed participant in the One Planet Sovereign Wealth Fund Working Group, fostering dialogue and taking action with other global investors to align with the goals of the Paris Agreement.

There is no doubt that 2020 will be remembered as a year of widespread, seismic change. Through careful planning, robust processes and the commitment and skill of its people, ADIA has successfully navigated this year of turmoil while continuing to position our institution for the future.

Since its formation in 1976, ADIA has proven its ability to innovate and adapt during times of significant disruption, and to manage both the opportunities and challenges that result. In today's context, such qualities are more important than ever. With the increasing speed, frequency, scale and complexity of change in today's financial markets, it is by drawing on our core strengths that we will continue to deliver successfully on our mission.

Operational Review

As a responsible global investor with a 40-year track record built across market cycles, ADIA has long recognised the importance of building resilience into our organisation to ensure that we remain operational in all circumstances.

This commitment was called upon as ADIA reacted to the onset of the Covid-19 pandemic with swift and decisive action. We immediately took steps to protect the health and wellbeing of our employees, while continuing to operate without interruption and maintaining – or in some cases even improving – levels of productivity, collaboration and speed of decision making. This was a time of accelerated evolution at ADIA, as we emerged with important lessons learned to further enhance our operational efficiency.

The response to this complex and dynamic situation offered strong evidence of ADIA's increased organisational agility, an area of focus over recent years through the ADIA-Wide Planning (AWP) process. AWP is a comprehensive management system aimed at ensuring that ADIA delivers on its long term objectives by dynamically evolving its strategy, internal structure and ability to execute as the investment environment changes.

In 2020, the AWP programme resulted in important progress on a number of organisation-wide priorities that cross departmental boundaries, focused on deploying our people and resources most effectively in support of ADIA's investment priorities.

A middle and back office streamlining programme commenced, with the objective of increasing overall speed, efficiency and flexibility of support functions across the organisation to meet the needs of investment teams.

The drive to increase internal agility was demonstrated in numerous ways across ADIA. The Fixed Income & Treasury Department (FITD) and the Alternative Investments Department (AID) have worked in recent years to simplify their respective portfolio structures and both now operate a single investment pool. These models were successful in increasing speed and efficiency in the investment process, while also providing improved visibility on performance and, as a result, alignment to overall objectives.

The Human Resources Department implemented a number of changes as part of its ongoing programme to simplify internal policies and processes while maintaining high levels of support to employees. The Operations Department continued to deliver significant and ongoing improvements in efficiency and automation, including increases in internal straight through processing rates.

ADIA's active equity teams were reorganised in 2020 with the creation of the Equities Department, combining the previously-separate External and Internal Equities Departments. In addition to creating greater alignment between ADIA's active equity exposures and its total portfolio objectives, this structure allows the department to select how best to access the markets it believes offer the greatest potential for alpha generation through active management, either through internal teams or external managers.

One of ADIA's main competitive advantages has always been its ability to take a truly long-term perspective. That remains, but this is now being complemented by enhancing our ability to identify and capture short-term opportunities.

This was illustrated by the Infrastructure Division during the year, as it used its mandate flexibility to prioritise listed investments when prices diverged between public and private markets early in the Covid-19 pandemic.

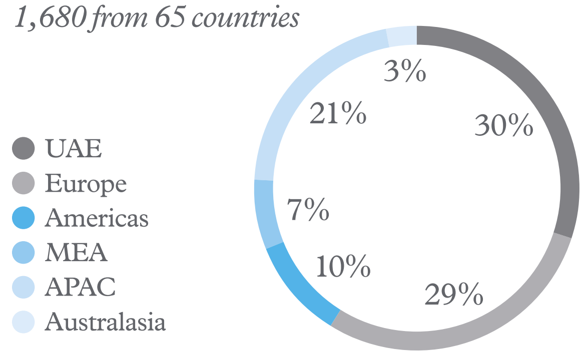
ADIA has demonstrated its ability to innovate and adapt, often in bold ways, at important inflection points in the external investing landscape. As advances in technology transform the business of investing, we believe that we are at one of these points again today, although with implications that are potentially more far-reaching than those of the past.

Across the organisation, ADIA plans to invest selectively in growing its capabilities in line with the changing nature of global markets, recognising that capturing future sources of excess return will likely require new and expanded skillsets to complement traditional investing talent.

One example in 2020 was the creation of a team in the Strategy & Planning Department that will develop and implement investment strategies using a quantitative, scientific approach. The build out of this multi-disciplinary team began in 2020 and recruitment will continue, as ADIA seeks to draw on the latest developments in areas such as machine learning and big data to enhance the investment strategy development process.

Total Employees

1,680 from 65 countries



Another fundamental shift in the external investing landscape is the growing momentum behind investors' response to climate change.

In addition to its involvement in the important work of the One Planet Sovereign Wealth Fund Working Group, ADIA's exposure to renewable energy continued to grow during the year. Through Infrastructure Division's investments, ADIA now has an indirect interest in assets with a renewable energy capacity of more than 20 gigawatts, and continues to invest in opportunities associated with a lower-carbon future. The Real Estate Division developed new tools to assess and manage climate change risk within its portfolio during the year, while the Indexed Funds Department introduced a new portfolio that systematically integrates the opportunities and risks associated with climate change.

Reflecting on 2020, ADIA was able to draw on the collective efforts of its people to meet the significant and diverse operational challenges posed by the Covid-19 pandemic while also implementing several important internal initiatives. Looking ahead, we will continue to evolve our organisational capabilities and empower our people to simplify processes and reduce bottlenecks in pursuit of ADIA's investment objectives.

Investments

ADIA has a highly diversified portfolio that spans geographies, asset classes and asset types, with the objective of generating consistent, long-term returns throughout market cycles.

CONTENTS

Equities

The first quarter of 2020 saw global equity markets experience their steepest decline on record. Economies around the world were plunged into a sharp contraction, business activity declined rapidly and unemployment spiked.

As countries sought to contain the economic impact of the Covid-19 pandemic, the policy response was emphatic: governments and central banks announced fiscal and monetary stimulus on a scale not seen in more than 50 years. These steps were successful in ensuring the 'Covid Crash' was short-lived and global stock markets soon rallied to recover all or at least a significant proportion of their losses.

Defensive stocks led the stock market rebound until October, as market participants priced in a long, slow recovery. However, in November investor confidence was buoyed by positive news on the development of effective vaccines against Covid-19, and this resulted in a rotation into pro-cyclical stocks. Both developed and emerging equities delivered strong absolute returns, but performance was mainly concentrated in a few countries. The US was the only major country that managed to outperform the MSCI Global Developed Markets Index and only three emerging markets – Taiwan, China and Korea – outperformed the MSCI Global Emerging Markets Index.

Information technology stocks were among the leading gainers, recording an eighth consecutive year of strong outperformance. In both developed and emerging markets, the energy sector was the biggest laggard while the real estate and financial sectors also underperformed. As prospects for recovery in various domestic economies improved as the year progressed, smaller cap stocks posted stronger performance after trailing the returns of larger cap stocks for several years.

Given the unprecedented level of monetary and fiscal support coming from central banks and governments, along with positive news on the broader distribution of vaccines, many market participants expect the bull market to continue in 2021. However, numerous risks could change this outlook and lead to a slower-than-expected recovery. Most prevalent of these include the possibility of additional waves of Covid-19 infections and slower-than-expected distribution of vaccines. From a geopolitical standpoint, the potential for ongoing trade friction between the US and China remains.

ADIA invests in public equities through two departments: the Indexed Funds Department (IFD) and the Equities Department (EQD).

IFD manages the largest proportion of ADIA's equities with the objective of achieving index returns with the flexibility to add value within approved guidelines.

IFD introduced a climate change portfolio in the first quarter of 2020, based on a framework that systematically integrates the opportunities and risks associated with the transition to a lower carbon economy. The portfolio performed in line with its objectives under low tracking error guidelines. The Department will continue to study potential enhancements to the framework in 2021.

IFD also increased the size and broadened the scope of its 'Index Plus' strategies, which continued to meet performance expectations in 2020. During the year these strategies benefitted from the prevalence of liquidity-driven opportunities such as capital raisings, as markets reacted to the spread of Covid-19.

ADIA's Equities Department was created in 2020 by combining two previously separate departments – one overseeing the activities of external managers, the other managing multiple internal portfolios – to provide a total portfolio perspective for ADIA's active equity exposures. This new structure aims to enhance EQD's ability to target markets it deems most attractive from a risk-return perspective, with a view to concentrating its active management capabilities on areas with structural advantages and strong prospects for future growth.

On that basis, in 2020 the Department further evolved its approach to investing in a number of markets. One specific example is with Japanese equities, where it removed its single-country, internally managed mandate while continuing to invest in Japan through its external managers. This, combined with the passively-managed portfolio in IFD, meant ADIA's overall exposure to Japan remained consistent, while enabling EQD to reallocate resources to other markets that it believes can offer more sustained outperformance in the future.

In 2021, EQD plans to introduce a new externally managed Andean mandate and has identified an existing manager to lead its efforts in capturing local opportunities. The Department will also continue to review its country exposures to ensure it focuses on markets where active management is most likely to offer returns at the higher end of the excess return spectrum.

Fixed Income

Strong government policy support ensured that fixed income assets across the risk spectrum delivered strong returns in 2020, despite the global economy experiencing the deepest peacetime recession since the Great Depression in the 1930s.

The bold and prompt response from global policy makers, including an unprecedented scale of fiscal and monetary support for households, SMEs and corporates, was able to moderate the impact of the Covid-19 pandemic across sectors and countries.

In developed economies, central banks lowered policy rates while introducing (or in some cases restarting) quantitative and credit easing programmes. As a result, the balance sheets of the G4 central banks – the US Federal Reserve (Fed), the European Central Bank (ECB), Bank of Japan, and Bank of England – ballooned by more than US$8 trillion during 2020, and continued to rise. In Europe, aggressive central bank easing and pledges to stay lower for longer resulted in record low core rates and the compression of peripheral yield spreads.

Both inflation and inflation expectations declined sharply through the year as negative demand shocks outweighed supply bottlenecks. The Fed announced its strategic monetary policy review, which stated the flexible nature of its inflation targeting framework and a greater willingness to tolerate temporary inflation increases. The ECB's strategic review was postponed to Q2 2021.

The US dollar peaked in March as the market sell-off intensified but, as global policymakers unveiled unprecedented stimulus and easing, it weakened across the board while risk assets rallied.

Many emerging market economies also lowered policy rates to record lows and some started small-scale quantitative easing. Emerging market assets experienced a V-shaped recovery during 2020: after a massive plunge in March, the rest of the year was marked by a strong recovery backed by hard currency flows. Emerging market local currency bonds were buoyed by the broad-based policy easing as well as emerging market central banks driving real policy rates to new record lows.

Similarly, credit markets had a dramatic year, suffering one of the sharpest sell-offs in history before spreads narrowed as 2020 wore on. The rebound accelerated in November as successful vaccine developments brought the prospect of an economic recovery during 2021 firmly into focus.

In 2020 ADIA's Fixed Income & Treasury Department continued to apply its prudent investment philosophy and disciplined risk and liquidity management capabilities in pursuit of its objectives.

The Department's Single Pool Framework, introduced in 2019, was successful in increasing the overall flexibility of investment processes while reducing complexity, and allowed for the management of more of the portfolio under a single active risk budget during the year. The Department also automated a number of business processes to further improve operational efficiency.

In the year ahead, the Department will continue to explore ways to expand the use of data in the investment process. New tools and technologies will also be used to enhance the Department's research capabilities, increasing efficiency and the overall scope and depth of its output.

For fixed income markets, market consensus expects major economies to stage a strong recovery during 2021, particularly in the domestic services sectors that were hardest hit by the Covid-19 pandemic. However, large output gaps remain and strong policy supports are expected to continue for years to come. There are numerous risks associated with the outlook, chief among them delays associated with vaccine distribution and the market reaction to any tapering of quantitative easing programmes.

Alternative Investments

Unprecedented market conditions provided a myriad of opportunities for hedge funds in 2020, although rapid shifts in investor sentiment meant that flexibility and agility remained key characteristics of the best performers.

Markets' reaction to the Covid-19 pandemic triggered a major liquidation in risk assets from February into March. This combined with the failure of talks between Russia and OPEC to halt falling oil prices to cause one of the fastest stock market falls in history. Indeed, the declines were so sharp that New York Stock Exchanges circuit breakers were triggered three times in a single week in early March.

The massive policy response from global central banks was successful in halting and then reversing market losses. The recovery quickly gathered pace, and in Q2 2020 the S&P500 delivered its best quarterly performance in more than 20 years.

Trend following hedge fund strategies had to keep pace with rapid market declines and recoveries during the year. They began 2020 heavily skewed towards risk assets and so were exposed to the Covid-19 shock and market sell-off, before quickly turning their books onto the defensive. The record stimulus from central banks whipsawed this defensive posture but, again, managers reacted and recorded a strong December by participating in the risk-on markets.

Managers following high Sharpe ratio equity statistical arbitrage and mean reversion strategies had a similarly interesting year. These managers contended with a liquidation in Q1 2020, first triggered by selling on news that several US indices were cancelling their March rebalancing, and then by leveraged players dumping risk into the markets. However, in echoes of conditions during the 'quant quake' of August 2007, a period of record rebound meant that many managers had opportunities to capitalise.

Equity market neutral strategies had a difficult year with several factors losing money – including multi-year laggard value which continued to suffer – until a reversal of fortunes was triggered by the announcement of a successful Covid-19 vaccine and the result of the US election. Most traditional value strategies experienced a rally into year-end. Momentum strategies continued to profit but not without issues of their own as they witnessed two rapid, multi-standard deviation sell offs: one from May into June and another associated with vaccine announcements later in the year.

The 'Covid-19 factor', a basket of stocks that either benefitted from or suffered because of the lockdown and working from home measures taken across the globe, was an important driver of cash equity market neutral trading throughout the year.

ADIA's Alternative Investments Department (AID) completed more transactions in 2020 than ever before, displaying its agility and maintaining a high operational tempo to capitalise on opportunities in a volatile, fast-moving market.

In 2019, AID reorganised its traditional hedge fund strategies into two distinct portfolios, Diversifiers and Return Enhancers, to enhance its allocation processes and increase visibility across its investments. This new structure proved advantageous during a year that highlighted the importance of flexibility and speed of execution.

During the early phases of the Covid-19 pandemic, AID's large allocation to Diversifiers ensured the portfolio was well positioned to manage market swings, and the Department was also able to move quickly and at scale to support existing relationships and allocate to new managers. It is often during times of turmoil that capable managers excel and, by being ready to deploy capital during the various market dislocations of 2020, AID was able to both cement existing relationships and form new ones.

The Department's Emerging Opportunities mandate, which sits outside the main hedge fund allocation, made several new investments during the year, expanding its insurance-linked strategies portfolio and building a diversified set of royalties investments. The team will continue its research into sources of return with low correlation to traditional asset classes that otherwise would not fit into ADIA's portfolio.

Looking ahead to 2021, AID will continue to optimally position its portfolio in order to generate returns uncorrelated to more traditional assets classes, providing diversified and enhanced risk-adjusted returns to ADIA's overall portfolio. The Department will maintain its focus on working with both established and new funds, as well as top tier managers, particularly those with clear focus on repeatable processes, state-of-the-art execution and strong data capabilities.

Real Estate

A number of the trends set to shape the future of the real estate sector accelerated during 2020, as the impact of the Covid-19 pandemic presented both challenges and opportunities across the asset class.

The most socially connected real estate sub-sectors – such as offices, retail, hotels, and entertainment venues – were quickly and adversely affected by government measures to contain the pandemic. On the other hand, logistics and data centre assets continued to thrive, as many of the factors fuelling their growth over recent years became key components to how governments, businesses and individuals responded to the pandemic.

Signs of an early rebound for some of the hardest hit sub-sectors dissipated by mid-year as travel and social distancing restrictions remained in place. Government support programmes, aggressive monetary policies, and reasonably healthy corporate balance sheets were successful in avoiding large-scale business insolvencies and job losses. However, banks witnessed a rise in troubled real estate loans and, fearing higher delinquencies, tightened lending standards. In several sectors, rent collections remained healthy, although higher tenant incentives and leasing concessions were common.

Against this backdrop, ADIA's Real Estate Division remained focused on the long-term themes it has followed in recent years by optimising allocations to sectors, geographies and modes of access to capture future growth trends.

The Division has built exposure to sub-sectors set to benefit from technological disruption, particularly logistics, data centres and life sciences, and to prominent technology hubs such as Silicon Valley, Shanghai, London and Paris. This ensured the portfolio remained well positioned during 2020.

The Division continued to build on its platforms in China and India, targeting cash flows from the growth of the middle class. In China, the partnership with Prologis expanded the Division's network of modern logistics units while, in India, the investment with major mortgage lender HDFC continued to build affordable and mid-market for-sale residential projects around the country.

The Division retained its focus on the residential sector globally which, after initial declines in Western markets in the first quarter, continued to improve steadily during the year on the back of low supply and historically low mortgage rates.

Looking ahead to 2021, the easing of pandemic-related economic hardship and social restrictions should be supportive for global office markets, while capital markets are likely to benefit from improving investor sentiment. The recession of 2020 has created a meaningful economic output gap that is expected to be filled, further supporting real estate market fundamentals.

While it is too early to fully assess the long-term impact of the rapid shifts in consumer behaviour caused by the pandemic, the risk of asset obsolescence has significantly increased for real estate investors. Early signs suggest that accelerated moves to more remote working and online shopping, along with less international travel, represent permanent changes, although by what degree is still hard to determine. The real estate sector will need to adjust accordingly, particularly through developing more flexible, multi-use spaces and by meeting rising tenant expectations around amenities and health and safety.

For the industrial and logistics markets, wider adoption of e-commerce (in terms of the range of products offered and the consumer age group), nearshoring and last-mile supply chain management have continued to drive the sector's growth. Digital infrastructure is now more important than ever before, fuelling further increases in demand for data centre capacity.

The hospitality industry was among the hardest hit by the pandemic. In Asia Pacific, hotels experienced a rebound in demand in the final quarter of 2020, but overall the sector remains under stress, particularly in Europe and the United States. ADIA's Real Estate Division believes tactical investment opportunities are likely to emerge over the coming year and beyond.

In 2021, the Division will maintain its disciplined investment approach. This will include an ongoing focus on platform investments in areas backed by positive structural trends, and investments associated with knowledge-clusters as highly skilled workers are drawn to supply-constrained locations.

ADIA's Real Estate Division will continue to build its capabilities in data analytics to analyse both structured and unstructured data in support of strategic allocation decision making.

This data-centric approach will also be applied for the identification and evaluation of physical and transitional climate change risks, both in the management of the Division's existing portfolio and for new acquisitions. The Division continues to refine its data set on asset-level sustainability accreditation and relevant benchmarking. The Division has also embedded a process to evaluate climate change impacts for all new investment proposals. This has included work to identify the most appropriate methodology for obtaining standardised asset level information, through in-house research and discussions with partners, peers and specialist climate change forecast firms. The Division will continue to refine its approach by introducing new assessment tools for both prospective and existing investments that provide a more consistent level of climate change-related data.

Private Equity

The global private equity market remained resilient in 2020, with aggregate deal value across the asset class rising to the highest level since 2007 despite the wide-ranging effects of the Covid-19 pandemic.

Market disruption was most pronounced from March to June, when most managers focused on portfolio preservation and deal activity slowed. This period of dislocation was relatively brief as massive government stimulus packages quickly improved economic prospects and investor sentiment. Private equity investors also adapted to new ways of working, with connectivity technologies allowing managers to conduct diligence remotely. Supported by the availability of inexpensive financing, both the pace of investment activity and valuations returned to pre-pandemic levels in the second half of 2020.

ADIA's Private Equities Department (PED) was active throughout the year and deployed more capital in total than ever before. Direct investments and co-investments represented 55% of overall deployment for 2020, up from 45% in 2019, with the balance committed to funds. In total, PED completed 24 direct investments in 2020, up from 18 in the previous year, in addition to investments in early-stage companies alongside our venture capital partners.

Investment activity was well distributed across geographies during 2020. The Department's focus on Asia-Pacific was evident with the successful completion of direct investments in China and, in particular, in India where the team was able to grow its portfolio of investments significantly for the third consecutive year.

In 2021, PED expects competition for attractive companies to remain intense or even accelerate. Globally, the private equity landscape is awash with liquidity as dry powder, or funds available for investment, has reached new records. Financing continues to be supportive, with central bank rates expected to remain at or near zero for the foreseeable future. Additionally, competition for assets from non-traditional sources, including continuation funds and special purpose acquisition companies, is likely to increase.

Against this competitive backdrop, PED will maintain its disciplined approach, leveraging its industry practices and core partners to pursue the most compelling opportunities on a global relative value basis.

We continue to believe in the long-term prospects of the technology sector, with mega-trends accelerating in the wake of Covid-19. Despite the rise in valuations, enterprise software remains attractive, given the significant market demand, high degree of recurring revenue and long-term growth drivers. We are also focused on selected areas in IT services, Internet and broader tech-enabled opportunities that align with PED's other industry practices.

PED continues to seek opportunities in healthcare, which is backed by robust underlying demographics and a range of positive technological and structural shifts, in some cases accelerated by Covid-19. Areas of focus include the broader pharmaceutical space, life science tools and diagnostics, specialised care providers, and healthcare IT.

The digital transformation of financial services is likely to remain a key theme in 2021, along with tech-enabled disruption and payments. PED's current portfolio is well-exposed to capital intensive businesses in the sector, which are expected to benefit during the post-Covid recovery.

In the consumer sector, we will continue to focus on defensible market leaders that benefit from sustainable trends in their respective categories and with opportunities to leverage technology to drive profitable growth.

In industrials, the Department will work closely with its partners to support businesses looking to retool for the digital age as automation, digitisation and sustainability remain key themes impacting the industrial world.

PED's venture capital focus remains on accessing investments linked to innovation in technology and healthcare at the earliest stages of development, with select follow-on investments as companies confirm their breakout potential.

In private credit, the Department's significant sectoral knowledge, flexible and long-term capital, and reputation as a trusted partner provide differentiation as PED seeks to provide structured solutions where appropriate.

On a regional basis, PED expects to remain active globally in 2021. We continue to view Asia-Pacific as a key focus area, backed by strong demographic trends, consumers' rising spending power, increased demand for healthcare and education, and technology-led business transformations.

Infrastructure

The importance of diversification within the infrastructure asset class was highlighted to investors in 2020 as the impact of the Covid-19 pandemic varied widely across sub-sectors and regions.

Generally, infrastructure assets directly exposed to GDP growth and economic activity, which include a large proportion in the transportation and energy sectors, experienced the greatest challenges from the pandemic. Meanwhile utilities were resilient throughout 2020 and digital infrastructure outperformed.

However, even within sub-sectors the impact was often uneven. In transport, assets exposed to passenger movements such as airports, commuter toll roads and parking saw greater business disruption compared to ports, rail, or toll roads skewed towards heavy vehicles. In energy, some uncontracted midstream and hydrocarbon-exposed assets experienced the dual impact of declining oil prices and reduced demand, while other storage-based assets were in greater demand as the futures price of many commodities exceeded spot prices. On the power side, contracted assets performed better than those exposed to merchant power prices given softness in the economic environment, while renewables experienced strong tailwinds from ESG mandates and falling equipment prices.

The performance of utility assets was steady throughout the year, underlining their status as a stable sub-sector able to withstand volatility in the broader economy. Utilities also saw several notable developments on the regulatory front, especially in the water and gas sectors in the UK.

Digital infrastructure performed strongly in 2020. Measures taken to contain the spread of Covid-19, particularly the increase in working from home and lockdown restrictions, underlined the need for better connectivity and increased demand for data.

This reinforced the importance of digital assets' role within infrastructure portfolios as a source of diversification uncorrelated to more traditional transport and energy assets.

Valuations in listed and unlisted infrastructure markets diverged more than at any time in recent years. Listed infrastructure securities dropped sharply in line with broader market declines in the first quarter, while unlisted asset prices also fell but more modestly. In situations where sellers were not forced to divest, the valuation mismatch between public and private assets was even more pronounced.

Against this backdrop of volatile market conditions, 2020 was another strong year for ADIA's Infrastructure Division. The Division, which had reduced the tilt of its portfolio towards GDP exposed assets over the previous 18 months, has a well-diversified and resilient portfolio across its four core sub-sectors of transport, energy, utilities and digital infrastructure, and this delivered a positive performance. The team was also able to reshape its deal pipeline to capitalise on emerging market conditions and leverage its mandate flexibility.

The Division remained an active acquirer of private market assets and increased its focus on public markets, targeting listed companies judged oversold in the market correction of February and March. This resulted in a sizeable redeployment of resources to proactively capitalise on the listed market dislocation and the completion of three new listed investments and further investment into existing listed positions. The team also worked with its co-shareholders to support investee companies managing unprecedented operating conditions to ensure access to liquidity.

During 2020 the Division increased its commitment to Cube Highways, an independent roads platform in India that successfully closed 12 acquisitions in the year and jointly established a greenfield platform to develop renewables, waste and waste-to-energy assets in Asia with Equis and Ontario Teachers' Pension Plan. The team was also successful in completing an investment in Jio Digital Fiber, an extensive fibre optic cable network in India.

In the year ahead, ADIA's Infrastructure Division will continue to support the growth of existing assets in the portfolio and pursue listed and unlisted investments that offer an attractive risk reward profile. It will focus on number of key themes, including the post pandemic economic recovery, the growth in digitisation, and the electrification and decarbonisation of the energy chain. The Division's current portfolio has significant scale and is highly diversified by geography and sector, and there remains considerable potential to support the growth of portfolio companies through follow-on investments.

Through the Infrastructure Division's investments, ADIA is now a shareholder in assets with a renewable energy capacity of more than 20 gigawatts. The team continues to see opportunities to expand its renewable energy portfolio, which is evenly split across developed and emerging economies, with a particular focus on established, innovative technologies such as wind, solar, hydro, biomass, energy from waste and battery storage.

Listed infrastructure will remain a key focus of the team's strategy as it continues to seek the best opportunities for delivering risk-adjusted returns on a relative value basis.

The competitive environment for unlisted assets and high levels of dry powder, or funds allocated for infrastructure investment but not yet deployed, means the team will remain selective in targeting market-leading assets alongside partners. Given the existing size and maturity of the portfolio, the Division's focus in 2021 and beyond will be on larger scale acquisitions as well as platforms which enable consistent deployment of capital alongside partners.

Governance

ADIA has robust governance standards with clearly defined roles and responsibilities that ensure accountability.

CONTENTS

Board of Directors

H.H. Sheikh Khalifa bin Zayed Al Nahyan
Chairman

H.H. Sheikh Mohamed bin Zayed Al Nahyan
Deputy Chairman

H.H. Sheikh Mansour bin Zayed Al Nahyan

H.H. Sheikh Hamed bin Zayed Al Nahyan
Managing Director

H.H. Sheikh Mohammed bin Khalifa bin Zayed Al Nahyan

H.E. Mohammed Habroush Al Suwaidi

H.E. Khalil Mohammed Sharif Foulathi

Investment Committee

H.H. Sheikh Hamed bin Zayed Al Nahyan
Board Member
Managing Director
Chairman, Investment Committee

H.H. Sheikh Mohammed bin Khalifa bin Zayed Al Nahyan
Board Member
Executive Director, Indexed Funds

H.E. Khalil Mohammed Sharif Foulathi
Board Member
Senior Deputy Chairman, Investment Committee

Majed Salem Khalifa Rashed Alromaithi
Deputy Chairman, Investment Committee
Executive Director, Strategy & Planning

Dhaen Mohamed Dhaen Mahasoon Alhameli
Executive Director, Fixed Income & Treasury

Khalifa Matar Khalifa Saif Almheiri
Executive Director, Alternative Investments

Khadem Mohamed Matar Mohamed AlRemeithi
Executive Director,
Real Estate & Infrastructure

Hamad Shahwan Surour Shahwan Aldhaheri
Executive Director, Private Equities

Mohamed Rashid Mohamed Obaid AlMheiri
Executive Director, Investment Services

Juma Khamis Mugheer Jaber Alkhyeli
Executive Director, Accounts

Notes

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