Overview

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Investment Activities

ADIA's investment departments are responsible for building and managing investment portfolios within the parameters set for them through the asset allocation process.

These investment departments, which invest across multiple geographies, have discretion over the origination and recommendation of investment proposals.

ADIA places great importance on preserving the reputation it has built over the past 40 years as a trusted and responsible investor and partner. In keeping with ADIA's prudent culture, investment proposals are subject to rigorous analysis at a departmental level, and in collaboration with numerous support functions, to ensure that they satisfy our internal risk and return requirements before being recommended for implementation.

ADIA invests into global markets either directly through its internal investment teams, or through external funds.

ADIA's equities, fixed income and alternatives departments operate a series of mandates under which they are able to invest across different asset types in line with pre-approved guidelines. These mandates are regularly reviewed and modified, or added to, as needed, in order to reflect market developments or take advantage of shifting trends. For illiquid asset classes, such as real estate, infrastructure and private equity, investment professionals are responsible for originating and recommending asset or sector specific investment opportunities.

ADIA's Investment Committee is responsible for the review and approval of all major investment proposals, including mandate changes, the appointment of new external fund managers and final investment decisions on most illiquid asset proposals. If approved, responsibility for deal execution and ongoing portfolio management rests with the relevant investment department.

Once an investment has been made, progress and performance is monitored by the investment department alongside a number of support functions, and updates are provided over time to the Investment Committee.

Investment Activities —

Equities

Indexed Funds Department

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

Indexed Funds comprises two teams: External, which oversees the activities of external investment managers who manage the majority of the assets allocated to Indexed Funds by ADIA; and Internal, which directly manages the remaining assets. Both the External and Internal asset pools are subject to close monitoring and strict guidelines to ensure objectives are met and risk is controlled. The Indexed Funds Department is supported directly by its Risk, Research and Operations teams, and governance is provided by the Department's Executive Committee.

Internal Equities Department

The Internal Equities Department invests directly in global equity markets and actively manages these investments in order to generate returns that outperform the relevant benchmarks.

Internal Equities identifies investment opportunities based on bottom-up fundamental research, focusing on companies' structural value propositions.

The Department manages multiple internal active portfolios that are organised by geography, sector and/or theme. It utilises a fundamentals-driven, research-based stock selection approach that seeks to generate alpha within predefined risk parameters. Each team is led by a portfolio manager, backed by a deputy, and consists of analysts as well as sector and/or country specialists.

External Equities Department

The External Equities Department oversees the activities of external investment managers who employ active strategies to invest in global equity markets. External Equities constructs and manages a single global equities pool consisting of multiple external managers, overseen by internal portfolio managers with regional specialisations and an objective to outperform the benchmark within a predetermined set of investment guidelines.

The internal portfolio managers seek to identify the best external managers in global markets to generate sustainable outperformance. The Department conducts extensive due diligence on a qualitative and quantitative basis, which includes multiple engagements with prospective managers. Throughout this process and post-appointment, External Equities requires maximum transparency from its external managers, with portfolio monitoring conducted on a continuous basis.

Review of the Year
2016

Macro and political events were the primary drivers of equity markets in 2016.

The year began on uncertain footing, with wide-ranging concerns that included U.S. economic growth prospects, financial market stability in China, weakness in emerging markets and commodity prices, and negative interest rates in Japan, among others.

However, oil and commodity prices troughed in February, before staging a recovery that surprised both by its magnitude and duration. The "risk on" trade that followed caught many investors unprepared, in what became something of a recurring theme for 2016. The sectors that performed best included Energy, Metals and Mining, Commodities and, later in the year, Financials. Emerging Markets, particularly those sensitive to commodities, performed well, outperforming Developed Markets over the first half of the year, but gave up some of their relative performance later in the year as the U.S. dollar once again resumed its upward trajectory.

The second half of 2016 was dominated by politics, starting with the U.K.'s decision to leave the European Union after a long and divisive referendum campaign.

In the U.S., Donald Trump defied all odds in 2016 to not only become Republican Party presidential nominee, but ultimately to win the U.S. presidential election. Once again markets were unprepared, and this created high volatility and unusual market movements.

Soon after this surprise, another followed in Italy. Prime Minister Matteo Renzi's referendum on proposed constitutional reform was firmly rejected, leading to Mr. Renzi's resignation.

2016 was also marked by the first signs of a significant shift by investors from bond investments to equities, suggesting the decades-long bond bull-run may finally be over.

Looking ahead, concerns about the strength of global growth will remain, coupled with political uncertainty, particularly in the U.S., U.K. and Europe.

In the short term, the evidence points to a possible rollback in regulation, a reversal in trade expansion and globalisation, higher costs and higher inflation. Rising interest rates and fiscal stimulus, particularly in the U.S., point to continued Dollar strength, although market anticipation of this means that other factors will likely be needed to prompt significant moves. Until that evidence is forthcoming, we remain in a low-growth, low-return world, with U.S. equities and a U.S. dollar that appear somewhat stretched at current valuations.

In developed markets, however, the potential for fiscal stimulus points to an environment that will likely favour equities over fixed income. Within equities, we have a slight bias toward developed markets, with emerging markets facing possible headwinds from a strong Dollar and concerns about trade protectionist rhetoric emanating from the new U.S. administration. In the year ahead, small- and mid-caps may outperform large-caps, especially in the U.S., due to their domestic orientation, relative lack of U.S. dollar risk and the likely positive impact of tax cuts. Within sectors, Financials appear attractive in both the U.S. and Europe, as they benefit from rising rates, a reversal in regulation and a primarily domestic currency exposure.

Key Developments

ADIA's equities departments had an active 2016.

In Internal Equities, continued selective recruitment resulted in new appointments to the U.S., Europe, Emerging Europe and South Africa, Japan, High Conviction Global Alpha, Equity Opportunities and support teams. The Global Sector Research teams, meanwhile, continued to produce research that supported the investment decision-making process, both within the Department and across ADIA as a whole.

In keeping with ADIA's emphasis on developing its UAE National talent, 10 UAE National trainees were placed into various roles across Internal Equities in 2016 as part of ADIA's Early Career Development programme.

The External Equities Department continued its drive to optimise investment processes and further develop market and manager databases to enhance information content and decision-making. These initiatives have provided the team with greater visibility of return drivers and associated risks in individual markets as well as in specific manager strategies.

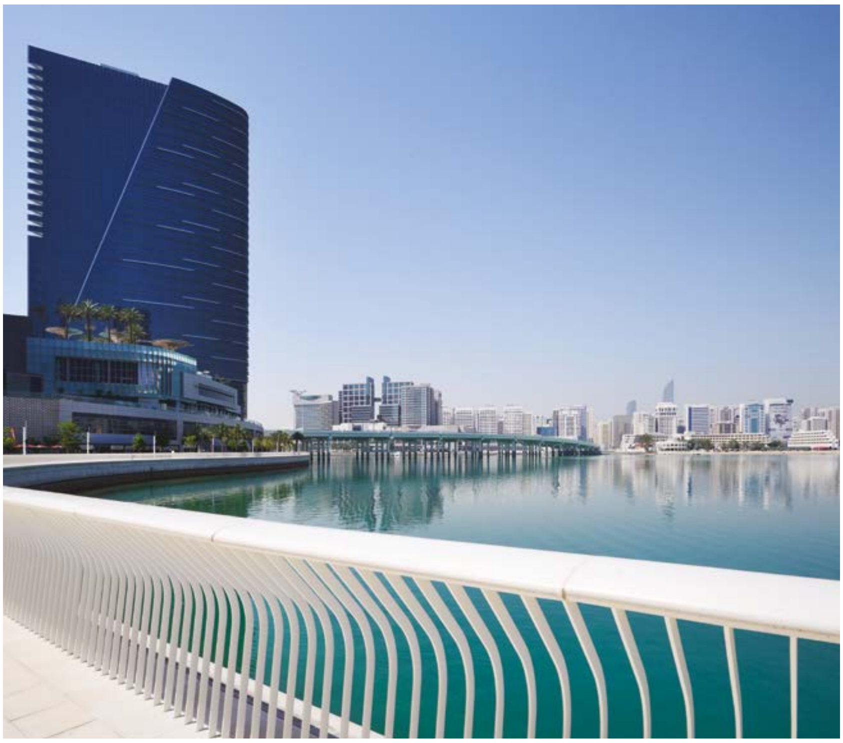
Investment Activities —

Fixed Income & Treasury

The Fixed Income & Treasury Department serves multiple functions, which include managing ADIA's liquidity needs and cash investments in the short-term money markets, as well as managing its portfolio of investments across a broad range of fixed income securities. The Department's objectives are to meet ADIA's liquidity needs and to obtain returns matching or outperforming its respective fixed income benchmarks through disciplined execution while maintaining an acceptable level of risk.

The Department's fixed income allocation is managed both internally and through external managers, with a goal of maximising returns while adhering to strict investment guidelines. Fixed Income & Treasury investments can be grouped into five broad categories: global government bonds, global inflation-linked bonds, emerging market bonds, global investment-grade credit and non-investment-grade credit. The Department also has a dedicated Treasury function, which monitors ADIA's liquidity needs and aims to preserve capital while ensuring access to daily and short-term liquidity.

All are supported internally by an operations team, which provides operational support and infrastructure to the department and works closely with other support functions across ADIA, and a risk team, which is responsible for identifying and evaluating risks at a departmental level and feeding its analysis into ADIA's broader risk management framework.



Review of the Year
2016

2016 was a year of two halves in government bond markets. During the first half of the year yields moved broadly lower, reaching historic lows (often below zero) in most markets. Yields rebounded after mid-year, in some cases sharply, and in general ended 2016 near or above levels at the start of the year. Consequently, returns were low, around 2% or less.

The decline in yields early in the year was driven by several factors: sluggish growth and persistently low inflation, continued aggressive easing of monetary policy in Europe and Japan, and eventually by market surprise over the U.K.'s vote to leave the European Union. Both the European Central Bank (ECB) and the Bank of Japan added materially to their purchases of government bonds, exacerbating the scarcity of high-quality long-term bonds. The Bank of Japan joined the ECB with a negative policy rate and the ECB pushed its policy rate more deeply negative. The surprising "Brexit" outcome added further downward pressure on yields, especially in the U.K.

By July, ten-year government yields were below 1.5% in the U.S., below 1% in the U.K., and below zero in Japan, Germany, France, and many other countries in Europe. The rebound in yields from those levels came as central banks and markets began to appreciate the undesirable side effects of quantitative easing, such as flat yield curves that hurt bank earnings, and the stress inflicted on pension funds and insurance companies by chronic low bond yields. The perception that monetary stimulus had peaked was encouraged by some firming of economic growth, especially in the U.S., and signs that economic policies would rotate to rely more on fiscal stimulus. Following the U.S. election result in November, and the intent of a new administration to ease fiscal policy in 2017, the rise in bond yields gained momentum, led by the United States.

Currency markets were broadly quiet in the first half of 2016, following a strong rise in the U.S. dollar late in the previous year. Emerging markets currencies gained ground as their bond markets looked more attractive versus the historically low yields in developed markets. The Yen was notably strong as well, profiting from a narrower bond yield margin versus the Dollar. Sterling dropped sharply after the "Brexit" vote. The change in tone in bond markets set off a renewed appreciation of the Dollar, especially after the U.S. election and the subsequent tightening by the Federal Reserve. China's RMB joined the general weakening against the Dollar, clear evidence that its policy of pegging to the Dollar had been replaced by one of stabilising its broader, trade-weighted value.

Credit markets turned in a strong performance in 2016, led by the U.S. high-yield market which delivered more than 15% total return. Yield spreads against government bonds had started the year at attractively high levels, and could fall as economic conditions improved during the year. The recovery in energy prices prevented a wave of defaults among levered oil and gas producers. Finally, the decision by the ECB to include corporate bonds in its purchase programme provided a significant boost to demand. By year-end, credit spreads had reached fair to expensive levels, pointing to lower returns in 2017.

Emerging markets debt also outperformed government bonds, especially Dollar-denominated issues. Local currency debt continued to be driven by currencies. Returns were strong in the first half of 2016, but gains were relinquished in the Dollar rally later in the year.

It is possible that 2016 marked a secular low in major government bond yields, though it remains too soon to conclude that with any confidence. The prospect of moderately higher yields would be welcome among many investors as it offers better returns on defensive and liquid assets.

Key Developments

During 2016, a number of new investment strategies were implemented within the Department's new diversified portfolio, aiming at combining active risks across market segments and efficiently utilising allocated risk budgets. Both the internal and external fixed income teams produced a positive relative return against their multi-beta investment strategies in 2016. The organisational structure was further strengthened by the appointment of a Head of Active Internal Fixed Income, centralisation of research capabilities (Macro, Quant and Credit) and strengthening of passive replication capabilities within the Department.

Meanwhile, the Treasury Group continued to develop its investment process through guideline changes, with a particular focus on maintaining breadth in returns and positions, whilst continuing to fulfil its responsibility to maintain liquidity and preserve capital.

Investment Activities —

Alternative Investments

The mandate of the Alternative Investments Department is to invest in liquid, non-traditional funds employing strategies that seek to diversify and enhance risk-adjusted returns in ADIA's overall portfolio.

The Department's externally managed investment vehicles include hedge funds, CTAs (Commodity Trading Advisor funds) and Emerging Opportunities, while a smaller internally managed portfolio focuses on systematic strategies. The team's hedge fund mandate includes macro, relative value, event-driven, and equity hedge strategies.

Alternative Investments is responsible for identifying, vetting and engaging investment managers who can best fulfil its mandates, while continuously monitoring and evaluating their performance and portfolio fit.

The Department also has an internally managed portfolio with a small allocation to a limited range of systematic strategies.

Hedge funds employ strategies that are mainly driven by discretionary investment themes, take both long and short positions, and use varying degrees of leverage to produce unique risk/reward profiles. CTAs, meanwhile, execute systematic strategies that employ a wide range of quantitative techniques to trade equities, commodities, fixed income and currency markets worldwide, principally in futures and foreign exchange markets. Other systematic strategies use advanced modelling and data-capture techniques to exploit various anomalies with varying degrees of emphasis on fundamental and technical inputs.

Review of the Year
2016

The economic growth and policy divergence that began in the latter half of 2015 accelerated in 2016 as a China growth scare and the prospect of multiple interest rate increases by the Federal Reserve sent global equities and commodities markets, particularly oil, into a tailspin. The Fed reacted swiftly by reiterating that the path of interest rate increases would be both gradual and dependent on U.S. data and global financial conditions. The resulting rebound in financial markets caught many by surprise as energy and emerging markets stocks and bonds rose, while financial and growth company shares suffered. This resulted in considerable rotation in return factors driving both stocks and bonds globally, adversely affecting almost all active managers and strategies, including hedge funds.

However, it was the two transformational political events of 2016 that ultimately determined manager outcomes for the year. First, the "Brexit" surprise in late June prompted a burst of volatility that was quickly reversed in most markets, with the exception of foreign exchange, which became the key market focus for many participants, especially macro managers.

In early November, the election of Donald Trump as U.S. President set the stage for a strong rally in equities, hard commodities, and the Dollar, and a sell-off in bonds, as markets priced in the potential for fiscal expansion and other measures in 2017.

This was followed by the Fed's decision one month later to raise its benchmark rate for the first time in 2016, which together point to a gradual normalisation of U.S. monetary policy in the year ahead.

The outlook for 2017 is dependent on a number of factors, including the path of U.S. interest rates, how and to what extent the new U.S. administration will be able to implement its policies, and ongoing political uncertainty in Europe, among other things. However, it appears likely that the persistent low volatility, high correlation markets of the post Great Recession era are drawing to a close, providing a more favourable market backdrop for most hedge fund strategies.

Given the surprise events of 2016 and unpredictable market conditions, liquid alternative strategies posted low single-digit returns on average, with strong returns from credit and discretionary macro managers and mixed returns from most equity-linked strategies. With its broad diversification of strategies, the Alternative Investments Department ended the year in line with the industry, with a particularly strong performance by macro strategies marking the second half of the year.

For CTAs, the year began with a strong positive contribution that was notable due to the portfolio's contrarian stance coming into the year. Despite a mixed performance at different key points during the year, the portfolio provided excellent protection from the events that surprised most discretionary hedge fund managers. As in previous years, the CTA mandate's strategic diversification to non-trend, systematic, multi-strategy managers with models focused on fundamentals, unique data sources and advanced algorithms paid off in 2016.

Equity hedge managers, meanwhile, performed modestly despite relatively strong equity markets worldwide, while European and Asian managers faced challenges from volatile markets and events in their regions. Market-neutral managers posted mixed results depending on the degree and nature of their neutrality and ability to cope with the rotation in and between market sectors. Meanwhile, trading-oriented managers with good timing skills and a broad market focus outperformed.

Discretionary macro managers had a strong year in 2016, particularly in the second half, with several managers distinguishing themselves by remaining steadfast and taking advantage of events through skilful trading. We expect this trend to continue, as improved opportunities to trade policy change within the timeframe of a macro manager bode well for future performance. Relative value managers reported positive, steady results, taking advantage of mispricing and higher volatility in and among sovereign bonds, credit and their derivatives, and also in select cross-asset class opportunities, particularly energy-related. Event-driven strategies, however, saw mixed and idiosyncratic performance due to unusually high dispersion in returns among special situation, activist and distressed debt managers.

Overall, discretionary hedge fund strategies had an acceptable year with an excellent outlook for 2017.

Key Developments

2016 was a year of consolidation for the Alternative Investments Department in assets, skills and capacities. Importantly, the Department saw positive results from its decision to expand its investment universe, allowing co-investments in "special situations", alongside our managers, as well as investments in smaller, capacity-constrained managers at earlier stages of their life-cycle. These changes provided the Department with access to a broader range of attractive market and manager opportunities, while lowering costs and improving returns.

In addition, the Department launched its Emerging Opportunities mandate to invest in asset types that fall outside the remit of ADIA's other investment departments. Staffed from within ADIA, the new mandate is expected to execute its first investments in 2017, with a view to adding new and differentiated return streams and diversification to ADIA as a whole.

Investment Activities —

Real Estate & Infrastructure

The Real Estate & Infrastructure Department is responsible for building and managing globally diversified portfolios of real estate and infrastructure assets, each with their own dedicated teams.

The Department is staffed with a broad mix of experienced professionals and has a mission to provide ADIA with the diversification benefits of real estate and infrastructure investing by effectively managing its portfolio to achieve attractive total returns over the long term. Identifying, pricing and managing risk is paramount in its investment approach.

In real estate, the Department executes its business plan through a collaborative approach that includes joint ventures with experienced local partners as well as third-party fund managers, whose performance is monitored by ADIA's in-house team. It employs a flexible strategy focusing on global relative value and market cyclicality that allows for investing across a variety of real estate asset types and also at various entry points in the capital structure. The Real Estate team seeks to structure its involvement in transactions in such a way as to maximise control over its capital.

In Infrastructure, the core focus is on assets with strong market-leading positions and relatively stable cash flows, including utilities, transport infrastructure and energy infrastructure. The primary strategy is to acquire direct minority equity stakes alongside proven financial and strategic partners, with an emphasis on developed markets but also an increasing focus on emerging markets. An ability to invest via externally managed funds, the listed market as well as mezzanine debt, complements the strategy. The Infrastructure team does not seek to control or operate the assets in which it invests.

Review of the Year
2016

In a year of heightened political uncertainty and unexpected outcomes, real estate fundamentals remained firm and, broadly speaking, on an improving trend. Investor demand for cash-flowing real estate assets remained healthy and continued to expand, as both cyclical and secular forces attracted capital to the asset class.

Despite an abundance of liquidity, transaction volumes declined across most major markets in 2016, a trend that was likely due at least in part to reduced available inventory. While investor demand for income-producing properties held up, the pool of buyers for many assets was neither as deep nor as broad as in recent years.

During 2016, market conditions became more differentiated within and across regions. The U.S. continued to lead most other developed markets, with both asset values and occupier market fundamentals, such as occupancies and rents, moving above peak levels achieved in the last cycle. While there is little evidence to indicate that a downturn is imminent, current pricing levels require downward adjustments to expected returns.

In Brazil, uncertainty over the near-term trajectory of the economy and leadership kept many investors on the sidelines, even as early evidence of stabilisation allowed the central bank to ease short-term interest rates.

The U.K.'s unexpected vote to leave the European Union introduced considerable uncertainty in one of the top destinations for cross-border real estate investment. Although transaction activity has fallen sharply since 2015, this is neither unique to the U.K. nor solely attributable to the referendum. The early evidence from both the economy and property markets shows a limited impact from the vote, although it remains too early to know what impact it might have on occupier and investor demand for real estate in the years ahead.

Elsewhere in Europe, property market fundamentals continued to improve and competition for cash-flowing assets remained intense, with investor interest in markets such as Italy, Spain and Ireland continuing to increase.

In the Asia Pacific region, investor sentiment remained positive, with investor interest in India continuing to gain traction, while wide spreads available in Australia attracted foreign capital. In contrast, Hong Kong retail and Singapore office and retail struggled with weak demand from occupiers and investors. Within China itself, increased government spending and the relaxation of efforts to rein in credit growth helped fuel a sharp rise in home prices, particularly in Tier 1 cities, which in turn underpinned consumption.

In Infrastructure, meanwhile, 2016 was characterised by an upsurge in investor interest and increased capital flows. New records were set for capital raisings in the managed funds market resulting in increased competition for assets across sectors and geographies. Returns continued their downward trend of the past three years, as asset prices were pushed higher, particularly in core markets. Two consequences of this were an increased push by infrastructure investors into emerging markets and a blurring of the lines dividing infrastructure from private equity.

In 2016, increased political risk and concerns about its potential impact on economic growth required greater prudence when bidding for infrastructure assets. Even so, transaction activity was brisk as investors decided that the risk and return fundamentals of infrastructure remained attractive on a relative basis to other asset classes. Going into 2017 the prospects of a political shift in favour of fiscal policy over monetary policy, with a particular emphasis on infrastructure spending, may help to underpin further growth in the year ahead.

Key Developments

The Real Estate team remains focused on asset and portfolio management initiatives, selectively selling assets that have achieved their business plan or no longer fit within the portfolio strategy, and securing attractive financing for properties identified for longer-term ownership. While the pace of acquisitions slowed in 2016 along with the maturing cycle, the team continued to search for opportunities to deploy capital where there was a premium for providing liquidity. Key acquisitions in 2016 that fit this profile included an office development in La Défense, the dominant office market in Paris, and a retail development in Macau that will serve primarily the underserved local consumer base. The team also took advantage of discounts in the Brazilian listed markets to acquire a controlling stake in BR Properties, which owns a large portfolio of office assets in the key markets of São Paulo and Rio de Janeiro.

In Infrastructure, the team remained active in pursuing new investment opportunities during 2016, targeting a variety of investment platforms as an alternative to auctions where prices continued to increase in certain sectors and geographies. This approach proved successful, with examples including a second investment in the Indian renewable energy sector through Greenko, a leading developer of wind, hydro and solar energy, and an agreement with Abertis to invest in its Chilean roads platform. Asset management was prioritised during the year, with a portfolio-wide strategic review completed and resulting in the identification and implementation of enhanced reporting and risk management procedures.

Investment Activities —

Private Equities

The Private Equities Department is responsible for investing in equity and credit globally through investments in private companies, typically alongside external partners, and through externally managed primary and secondary funds. The Department began investing in the late 1980s to seek risk-adjusted returns that exceed long-term public market returns and to diversify ADIA's portfolio.

The Department is committed to maintaining its ability to invest directly alongside partners through funds and across all private equity and private credit products and geographies. Investment teams are supported within the Department by the Risk and Finance functions.

Review of the Year
2016

The private equity industry posted a solid performance in 2016, according to interim data. Investor demand for the asset class remained healthy throughout the year, despite the emergence of late-cycle warning signs including high valuations, leverage and dry powder levels across many segments of the industry.

Valuations were pushed higher by a combination of factors, including availability of debt, pressure among GPs to deploy capital, and competition with strategic buyers. This was evident particularly in Europe where entry multiples reached record levels. In the U.S., entry multiples decreased marginally from 2015 highs but remained above 2007 pre-crisis levels.

Private equity houses continued to deploy significant amounts of leverage in their transactions, supported by accommodating debt markets albeit at lower leverage multiples than seen in 2015. Interest coverage ratios remained healthy and improved from the previous year.

Overall, private equity investment volumes were steady in 2016 compared to the previous year, but capital deployment remained significantly below the peak observed in 2007, with the majority of capital being deployed in the U.S. market. Aggregate deal value contracted across all major geographies including Asia, which experienced the greatest relative decline.

Concurrently, preliminary data suggests fundraising activity increased during 2016 as a whole, with volumes peaking in the second quarter. Venture capital continued to benefit from growing investor appetite, despite the correction in valuations experienced in certain segments of the technology sector. As such, dry powder once again reached record-high levels. Absent a market correction, aggregate levels of investment are expected to remain well supported.

Preliminary data suggest exit activity continued to be robust in 2016 but materially below the peak levels of 2014 and 2015. For the seventh consecutive year, the aggregate value of exits exceeded that of new investments. Overall, markets remained liquid, particularly in the case of strategic buyers, which accounted for the majority of exits.

In 2016, the private equity industry also saw the development of a number of key industry trends such as the emergence of funds with long lives in excess of 15 years, the continued appetite for co-investments, as well as interesting direct deal opportunities in China, which is now one of the largest private equity markets globally albeit with varying degrees of maturity among market participants. The market anticipates greater inflows into the asset class as institutional investors, particularly in Asia, increase their allocations to private equity.

The latest available data on the Department's returns suggest a solid performance for private equity investments in 2016. However, a combination of high valuations, increasing competition and rising interest rates in the U.S. may have a dampening effect on future absolute returns for the industry.

Key Developments

In 2016, the Department continued the prudent implementation of its strategy. At the portfolio level this resulted in a gradual increase in exposure towards direct private equity and private credit transactions, as well as the rapidly developing Asian private equity markets, particularly China and India. Consistent with its view of valuations, the Department increased its focus on structured equity opportunities because of their defensive characteristics. And on the fund side, the Department directed its commitment activity to increasing its focus on core relationships which have consistently supported its strategy.

2016 also marked the appointment of a Global Head of Private Equities, with joint responsibility alongside Departmental management for setting the investment strategy, overseeing the programme and making investment recommendations.

In 2017, the Department will continue to work with its financial and industrial partners to identify the investments offering the best risk adjusted returns in evolving market conditions and actively engage in the execution of negotiated investments.

Selection of External Managers

In addition to our internal investment teams, we recognise that external managers often bring desired skills or experience that allow ADIA to successfully capture "alpha", or returns that beat the market, as well as managing its exposure to "beta" strategies that track the overall market.

In total, around 60% of ADIA's assets are managed externally in areas including equities, fixed income, money markets, alternative investment, real estate and infrastructure, and private equities. We engage managers across the risk spectrum, from index-replicating to actively managed mandates, and typically tailor each investment to our specific needs and internal guidelines.

ADIA's alpha-seeking managers operate in a wide variety of geographies and asset classes and employ a comprehensive array of strategies to meet their objectives. Our goal is to ensure that we employ only those managers in whom we have the highest level of conviction operating across structurally attractive geographies and asset classes, who combine to produce the levels of alpha we demand from active management.

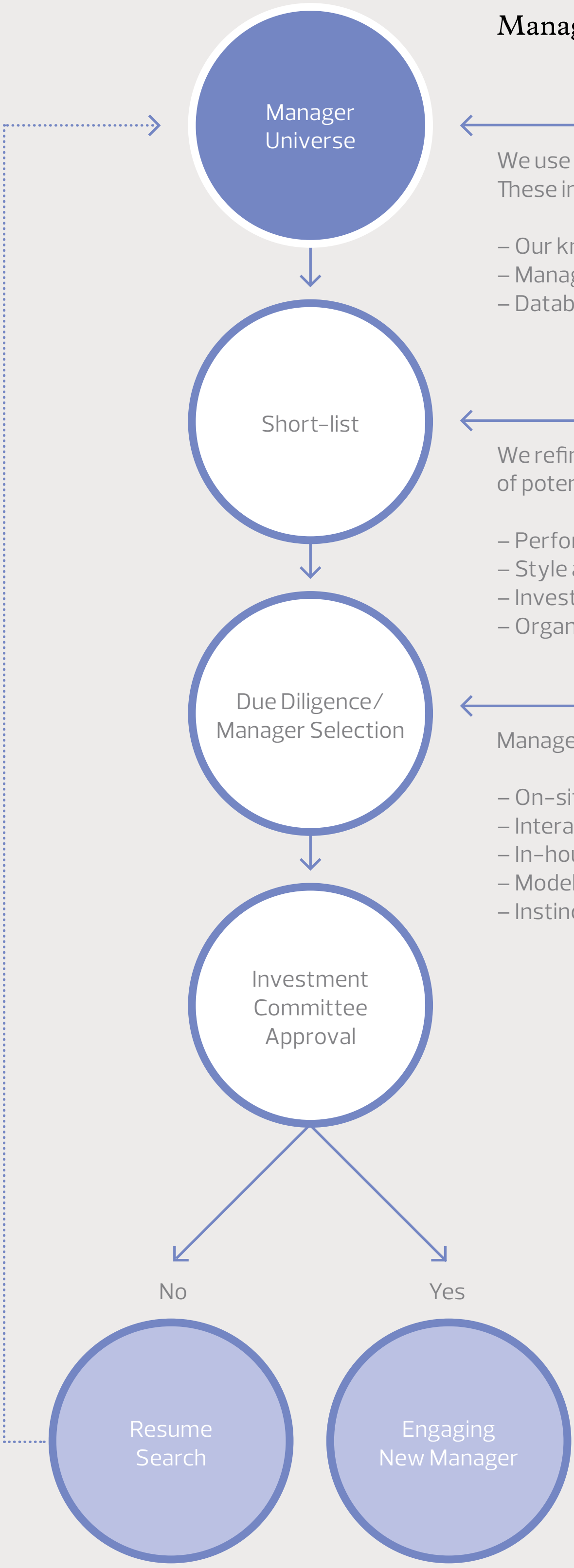
ADIA also uses external managers to complement its internal capabilities in the management of our index-replicating – or beta – investments across the various asset classes and geographies.

In recognition of the important role they play, we devote time and effort to the process of recruiting and monitoring external managers. Our investment methodology follows three key stages, from defining a universe of potential managers in any given asset class and strategy, to developing a short list and finally identifying candidates for inclusion in our portfolio. We analyse managers on the basis of ADIA's "Four Ps Framework" – Philosophy, Process, People and Performance – allowing us to build a well-rounded understanding of their backgrounds and potential to deliver sustainable strong performance against their mandates. The sequencing of due diligence activity varies by asset class, but always includes quantitative factors and qualitative views, informed by gathering and analysing relevant data, face-to-face meetings with managers and the expertise of our internal investment and due diligence teams.

ADIA has developed robust systems and processes over many years that require our external managers to remain compliant with our agreed investment and operating parameters. Once appointed, teams in each department continuously monitor our managers, analysing portfolio performance, positions, risk exposures and investment styles, and hold regular follow-up meetings with them, both remotely and on-site at their offices. In this way, we set clear expectations of the conduct of each external manager and are able to put their performance in the context of differing market conditions. The investment teams are supported by the Internal Audit Department, Evaluation & Follow-Up Division, Operations Department, Investment Services Department and Accounts Department, in coordination with ADIA's custodian banks.

The use of external managers also ensures that ADIA retains up-to-date knowledge and is kept abreast of developments across the investment industry. While we have a clear focus on investment performance, our preference is to have long-term relationships with our external managers.

Manager selection process



We use various means to identify a long list of potential managers. These include:

- Our knowledge and experience of the industry
- Manager reputation
- Databases

We refine the broader manager universe into a smaller short-list of potential candidates based on analysis of:

- Performance and attribution
- Style and portfolio
- Investment philosophy and process
- Organisation and team structure

Managers are selected after a thorough process that includes:

- On-site investment and operational due diligence
- Interaction with existing structure
- In-house due diligence
- Model impact (desired allocations)
- Instinct and experience

- Finalisation of terms (commercial and investment)
- Legal contract

Investment Support

ADIA's ability to fulfil its mission and deliver sustainable long-term returns is underpinned by a network of professional teams across the organisation.

These teams, which have been developed over many years to support ADIA's specific needs, ensure that the business continues to operate efficiently and effectively at all levels to support ADIA's investment goals.

Accounts Department

The mission of Accounts is to contribute to the safeguarding and long-term growth of ADIA's assets. Accounts fulfils its mission by maintaining financial integrity and control, and providing financial planning and insights.

The Department has two main functional areas: Accounting, and Financial Planning and Analysis.

The Accounting team is responsible for:

- Investment accounting and related controls;
- Preparing ADIA's annual financial statements in accordance with International Financial Reporting Standards (IFRS); and
- Liaising with external auditors and supporting ADIA's investment departments and key committees.

Financial Planning and Analysis is responsible for:

- Budgetary planning and control;
- Providing transparency on financial variables via timely, relevant and accurate management reports and analyses; and
- Supporting ADIA's committees and departments by providing insights on the financial contribution of activities and strategies.

Central Dealing Department

The mission of Central Dealing is to facilitate and manage the implementation of ADIA's investment decisions. It achieves this through the trading and execution of securities, including: global equities, fixed income, foreign exchange, money market, and derivatives, and by managing transitions on behalf of ADIA's internal investment departments.

Central Dealing seeks to add value by providing:

- Skilful trading and execution, and management of transitions, to ensure performance is not diluted during the implementation of investment decisions; and
- Advice to ADIA's investment teams on markets, securities, transitions and trading.

The Department's experienced teams make use of technically advanced electronic trading systems and processes, which are employed within a centralised, transparent and consistently applied compliance and risk framework. Its approach ensures that Central Dealing is able to execute its activities professionally, with due care and minimal operational risk, thereby maintaining ADIA's reputation as a respected and trusted counterpart.

Human Resources Department

The mission of Human Resources is to enable ADIA's investment success by building and sustaining organisational capabilities and individual talent.

The Department is divided into a number of key sections:

- Human Resources Business Partners (HRBPs) are responsible for delivering coordinated and impactful HR-related support and guidance to ADIA's leadership and departments;
- The Recruitment team is responsible for supporting departments in identifying and hiring top talent from the UAE and around the world. UAE National Recruitment Section supports this effort by identifying, supporting, and recruiting young UAE Nationals with the potential to be strong performers and build successful, long-term careers at ADIA;

- The Talent team ensures that ADIA has the people and skills needed to meet its goals. It achieves this by identifying talent needs, providing resources and processes for individual development, and measuring and improving performance;

- The Rewards team ensures that employees' pay and rewards are closely aligned with their performance contribution and are competitive with our global peers;

- The Organisational Development team designs and seeks to continuously refine ADIA's organisational capabilities to enable ADIA to implement its mission and achieve its investment goals;

- The Facilities & Procurement teams enable a productive and secure working environment for ADIA employees;

- The Employee Services teams improve the efficiency and productivity of ADIA employees by delivering outstanding support and services; and

- The HR Administration and HR Operations functions are responsible for the execution and communication of ADIA's core HR operational processes, procedures, and policies.

These areas, along with a number of other functions in Human Resources, combine to enable the Department to offer an integrated service, promoting efficiency throughout the organisation and supporting ADIA's ambitious recruitment and talent management goals.

Corporate Communications & Public Affairs
Corporate Communications & Public Affairs is responsible for protecting and promoting ADIA's brand and reputation, improving understanding of ADIA and its activities, coordinating relationship management, and providing communications advice on a wide range of matters.

Information Technology Department

Information Technology is responsible for designing, developing and maintaining ADIA's technology platforms. This covers a wide range of technology from large vendor-based systems to smaller in-house developments. The Department has a customer-focused approach with an emphasis on using innovation and state-of-the-art technology to improve its service to ADIA's employees.

Within Information Technology, quality assurance and service delivery professionals ensure that the Department provides a first-class service to internal partners, while its business analysts, software engineers and project managers are responsible for constantly developing new functionality to support ADIA's business. In addition, Information Technology is responsible for ensuring a secure working environment through advanced cyber-security techniques and strategic disaster-recovery planning.

The Department has two core teams:

- Infrastructure Management, which ensures that ADIA's hardware and networks are up-to-date and provide a fast, stable service; and

- Application Management, which works closely with business colleagues to create best-in-class financial applications and mobile applications to support ADIA's investment goals.

Internal Audit Department

Internal Audit's mission is to add value to ADIA by evaluating and improving the effectiveness of internal controls, governance and risk management processes, through the provision of independent assurance and advisory activities by qualified staff in line with ADIA's cultural values.

The Department reports both to the Audit Committee and to the Managing Director.

Internal Audit is primarily a review function which:

- Independently evaluates ADIA's internal control systems to ensure they adequately safeguard ADIA's assets, activities and interests, and reviews them regularly to ensure they are both efficient and effective; and
- Provides an additional layer of security to ensure all transactions are undertaken in accordance with ADIA's policies and procedures.

The Department's work conforms with the International Standards for the Professional Practice of Internal Auditing.

Managing Director's Office

Evaluation & Follow Up Division

Evaluation & Follow-Up advises and supports the Managing Director, the Investment Committee, and other committees that support ADIA's governance framework.

The Division provides independent analyses and recommendations on all investment and asset allocation proposals generated by ADIA's investment departments and by Strategy Unit prior to their presentation to the Investment Committee. It also evaluates and prepares periodic reports on investment departments' performance, strategies, risk profile, structure, and resources, and on ADIA's overall investment performance including the impact of its asset allocation decisions.

Evaluation & Follow-Up's role also involves reviewing and providing recommendations on ADIA-wide strategic, organisational and governance matters.

The Global Research Unit provides the Managing Director and the leadership of ADIA with insight on global economic issues to aid discussion and decision-making across ADIA.

Legal Division

Legal is responsible for identifying and evaluating all legal, regulatory, and tax-related issues and associated risks, and for advising ADIA and its senior management on such matters.

Strategy Unit

Please see "Investment Strategy and portfolio overview" on page 14.

ADIA's support departments work closely with investment teams to ensure the organisation has the people, processes and systems needed to achieve its business objectives.

Investment Services Department

Investment Services provides risk management, data and information management, and project management support to ADIA's committees and departments to strengthen its end-to-end investment process.

The Department is divided into three main areas of focus: Risk Management, Data & Information Management, and the Project Management Office.

Risk Management leads the development and implementation of ADIA's enterprise-wide risk management framework. It advises the Investment Committee and Risk Management Committee and provides an independent, holistic assessment of ADIA's risk profile. It also fosters the continuous development of a culture of risk awareness across ADIA through its relationship with each department; as part of Risk Management, the Compliance function works to maintain ADIA's adherence to market rules and regulations and to ADIA's internal investment guidelines, and employees' compliance with ADIA's Code of Conduct and subsidiary policies. Business Continuity Management, meanwhile, works closely with all ADIA departments to operate a best practice Business Continuity programme, enabling ADIA to continue critical business processes in the event of significant business disruptions.

Data & Information Management ensures the delivery of timely, accurate data across all asset classes. The Performance Analytics function provides performance and attribution analyses, in alignment with investment risk, that contribute to a comprehensive view of risk and performance for the total portfolio.

The Project Management Office collaborates with ADIA departments to manage long-term, complex projects that deliver strategic change to ADIA. It also provides regular updates to senior management on ADIA's project portfolio.

Operations Department

Operations is responsible for protecting ADIA's assets and minimising exposure to operational, reputational and other risks. Working alongside their internal and external partners to support the investment process and help improve performance, the team develops and maintains a controlled environment while at the same time designing and re-engineering new and more efficient capabilities. Operations continuously develops its straight-through processing capability to maximise efficiency without compromising operational risk, while remaining compliant with all regulations and guidelines.

Operations oversees the following key functions: Trade Support (settlement, capture and cash), Asset Servicing, Securities Lending, Change Management, Performance Measurement, Custodian Management and Operations Risk. The Department seeks to generate incremental revenue through efficient portfolio cash management, tax reclaims, securities lending, class action recoveries and securities litigation.

Operations supports ADIA's global investment mandates by maintaining strong technical knowledge of global financial markets and staying up-to-date with relevant market and regulatory developments.

Risk Management

In keeping with our prudent culture, identifying and managing risk plays a central role in every stage of ADIA's strategic and day-to-day decision-making.

ADIA's risk management framework is holistic in nature, having been designed to comprehensively identify and analyse all types of risks across asset classes and ensure that any potential issues are managed efficiently and effectively.

The Managing Director has ultimate responsibility for ADIA's risk management, with assistance and advice from several committees and departments, including the Investment Services Department, Strategy Unit, Evaluation and Follow-Up Division, Internal Audit Department, and Legal Division.

Governance

The Risk Management Committee (RMC) is the primary committee that is responsible for dealing with risk management at ADIA. The RMC, which has the same composition as the Investment Committee, is tasked with overseeing the effective implementation of ADIA's risk management framework and ensuring that all risks are addressed by relevant departments in a timely manner.
Its objective is to ensure that a proactive dialogue exists between all senior risk executives in order to help protect ADIA from unexpected loss of capital or calls for liquidity, failure of key operational processes, or reputational damage. Other key objectives of the RMC include ensuring alignment of departmental risk activities with ADIA's risk appetite and overall risk framework, and serving as a conduit for the escalation of risk issues arising from within or across departments. The Investment Services Department is at the heart of this process. It identifies risk issues to be escalated to the RMC, sets the agenda, coordinates meetings and monitors the execution of approved risk management actions. Other committees are also involved in risk management matters, as required.

Risk Management

At ADIA, we believe that managing risk is a core responsibility of all employees. Risk management is embedded in all of ADIA's investment and related activities, from asset allocation to investments in individual asset classes and ultimately to trade execution.

The Investment Services Department, working closely with investment teams, is responsible for protecting ADIA's assets and adding value to the investment process through its core risk management and performance analysis responsibilities. These entail leading the disciplined execution of the risk management framework, advising on and monitoring adherence to risk appetite, supporting the RMC with an independent assessment of ADIA's concentrations, and promoting a culture of risk awareness.

The Investment Services Department's risk analysis includes:

– Continuously assessing all sources of risk on both an absolute and a relative basis, including through proprietary portfolio modelling;

– Developing a comprehensive risk assessment across all risk types, including "top-down" aggregate portfolio risk, "bottom-up" investment risk by asset class, country and counterparty risk, operational risk, operational due diligence, business continuity, and compliance risk; and

– Identifying, monitoring and escalating risk mitigation strategies to address emerging and ongoing risk issues on a timely basis.

In addition, and to ensure connectivity across ADIA, each investment department has its own departmental-level risk framework. By cascading down from the ADIA-wide framework, these combine a unity of purpose with the necessary flexibility to capture risks that are unique or specific to each asset class. The Virtual Risk team – a network of risk managers within investment departments and other key functions – is an integral part of the link between the ADIA-wide and the departmental risk management frameworks.

Risk Culture

ADIA's risk management framework is underpinned by the emphasis we place on education to support the continuous development of a culture of risk awareness across ADIA. In this respect, the Risk Academy — a series of in-house workshops on topical risk issues facilitated by world-renowned experts — is a leading initiative driven by Investment Services and ADIA's Learning & Development team. It brings the whole of ADIA together on a regular basis, with the objective of enhancing risk awareness and risk management knowledge across all departments.

At ADIA, we expect our people to demonstrate the highest standards of ethics, integrity and professional competence. ADIA's employees must adhere to a Code of Conduct that sets the standards of behaviour that are expected of them in order to preserve ADIA's integrity and reputation and enable it to fulfil its mission.