Business Review

By making continuous enhancements, ADIA has built an investment strategy that is not simply based on asset class or geographic allocations, but one that is both robust and increasingly focused on return drivers.

Investment Strategy and Planning

ADIA has a disciplined investment strategy that aims to generate stable returns over the long term within established risk parameters, supported by a comprehensive, institution-wide planning process

ADIA's strategy and planning activities work in tandem, aligning organisational priorities with investment objectives through the ADIA Wide-Planning (AWP) process. Our approach ensures that ADIA's investment activities are closely tied to its short, medium and long term goals.

Investment strategy at ADIA begins with a clearly defined appetite for risk. This has been calibrated through a blend of publicly traded securities, known as the Reference Portfolio, developed to define the desired amount of market risk that should be accepted over the long term.

The Strategy & Planning Department (SPD) plays a central role in ADIA's investment process, with responsibility for developing, maintaining and periodically reviewing ADIA's Strategic Asset Allocation (SAA) across more than two dozen asset classes and sub-categories. The SAA is intended to add value to the Reference Portfolio by diversifying across this richer set of asset classes, using weightings based on ADIA's long-term view of the world. This results in a higher expected return for a similar level of risk.

In accordance with ADIA's prudent governance structure, SPD's strategic asset allocation recommendations are submitted to the Investment Committee and ultimately the Managing Director. If approved, funds are allocated to the respective investment departments, which are responsible for implementation in line with their mandates, benchmarks and guidelines.

Through an ongoing assessment process, ADIA's investment strategies are continuously streamlined to enhance performance. This includes proposing new strategies to expand ADIA's investable universe and identifying medium-term tactical opportunities for generating returns in excess of those achieved by the Strategic Portfolio, while maintaining ADIA's target risk profile.

In order to achieve its long-term objectives, ADIA must be able to execute on its desired asset allocation in a timely fashion, in size, while minimising transaction costs. It is for this reason that half of ADIA's portfolio consists of index-replicating, or passive, strategies within quoted markets. This is offset by skilfully designed, actively managed investments across asset classes, in areas with genuine potential to generate market outperformance, or alpha, over the long term.

We recognise that a structured yet flexible approach is needed to ensure opportunities and trends can be captured as they arise. As a result, ADIA has expanded its in-house capabilities in a number of asset classes and support functions in recent years. On a macro level, this has enhanced the organisation's ability to take a globally strategic view of opportunities, both across and within asset classes. It has also enabled ADIA to become increasingly tactical where potential opportunities and trends arise.

As a result, ADIA has built an investment strategy that is not based simply on asset class or geographic allocations but one that is robust, flexible and increasingly focused on return drivers. This allows for a sophisticated approach that can be more granular in nature and provides us with the ability to explore sector-based or thematic investments with attractive risk and return characteristics.

The development of ADIA's investment strategy is guided by and closely tied to the AWP process. Three inter-linked disciplines – Strategy Planning, Organisational Planning and Execution Planning – work together to ensure ADIA adopts a coordinated, proactive and forward-looking approach to strategic and organisational change.

This process aims to promote discussion around fundamental assumptions and strategic priorities, align ADIA's culture, people, information, structure and process with the institution's objectives, and support departments with their implementation of agreed strategies and organisational improvements.

Strategy & Planning Department

The Strategy & Planning Department (SPD) is responsible for ensuring that ADIA's activities remain closely aligned with its mission and long-term objectives. SPD is divided into the following functional areas:

Investment Strategy develops a diversified strategic asset allocation in line with ADIA's mission and investment goals, adding value through tactical asset allocation and by advising ADIA's leadership on features and trends in capital markets.

Portfolio Construction provides quantitative and operational support to the Investment Strategy processes. It also develops, maintains and improves portfolio optimisation, portfolio simulation and back-testing tools.

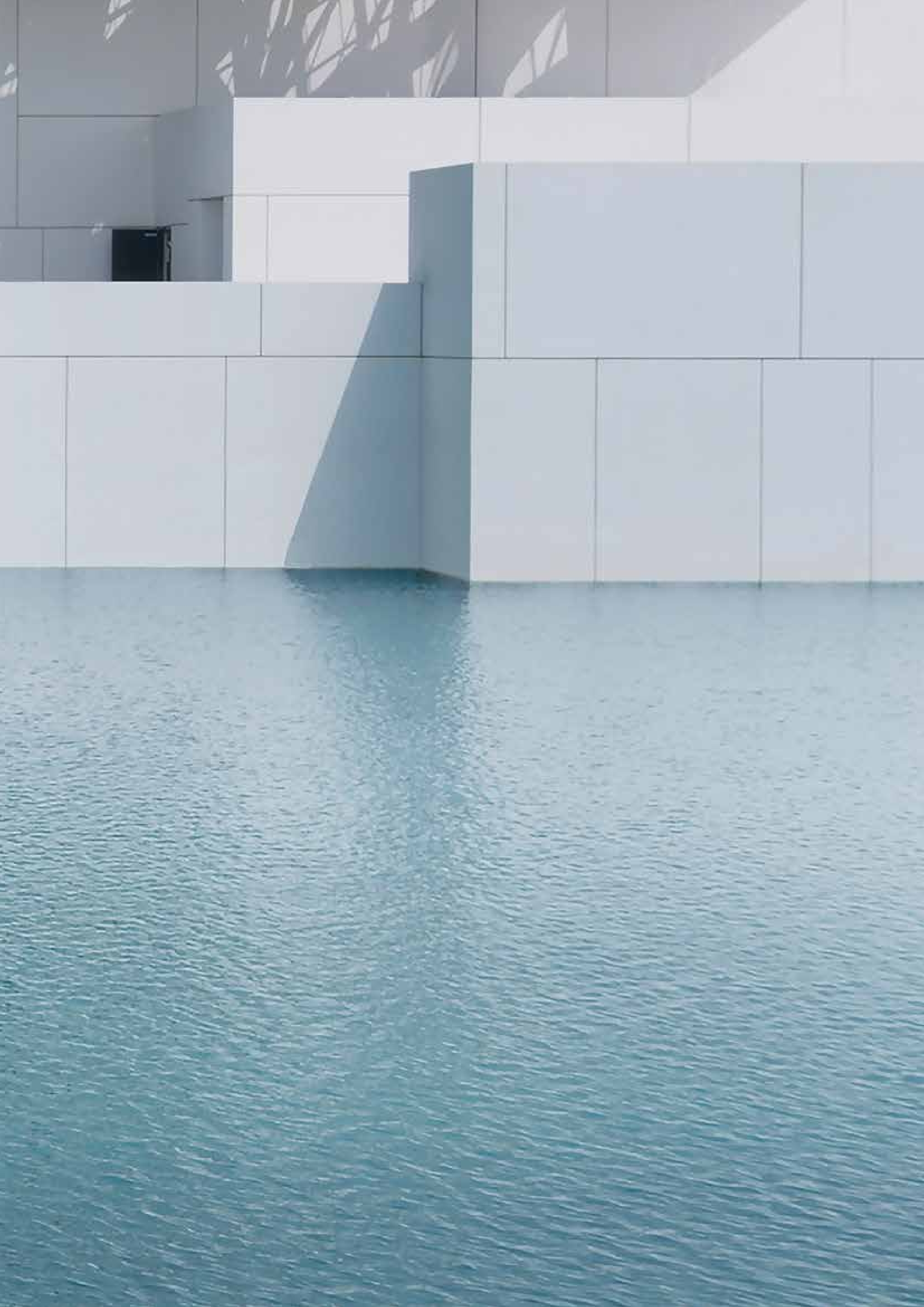
Investment Risk is responsible for understanding and analysing ADIA's exposure to market, investment, liquidity and country risks, and providing input into ADIA's investment guidelines.

ADIA Global Research produces insightful research and analysis on economic, energy and political Issues, sharing this with ADIA's leadership and stimulating debate across the organisation.

Organisational Development works to design and improve ADIA's organisational capabilities, including its governing committees, in order to implement its mission and achieve its investment goals.

Project Management Office is responsible for supporting ADIA's strategic objectives through the design and implementation of sustainable change projects across the organisation.

Corporate Communications & Public Affairs provides wide-ranging communication support to ADIA's leadership and departments. Its mission is to protect ADIA's reputation, build internal and external understanding of its activities, and strengthen stakeholder relationships.



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 of all major investment 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.

OVERVIEW

Investment Departments:

1 Indexed Funds
2 Internal Equities
3 External Equities
4 Fixed Income & Treasury
5 Alternative Investments
6 Real Estate & Infrastructure
7 Private Equities

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.

2017 REVIEW OF THE YEAR

Global equity markets built further in 2017 on their multi-year run of positive returns, supported by synchronised global growth translating into steady corporate earnings appreciation continued expansionary support by central banks and abundant liquidity from investors lacking attractive alternatives.

Even as valuations reached new highs in many markets, sentiment remained underpinned by positive earnings surprises and corporate activity. Toward the end of the year, U.S. markets were boosted further by the expected passage of a tax reform package.

The S&P 500 put in its best first-half performance since 2013, before finishing the year 22% higher, helped by continued outperformance of technology stocks. More broadly, the MSCI AC World Index gained 24% with Information Technology, Materials, Industrials and Consumer Discretionary sectors all performing well. It was a particularly strong year for emerging markets, with the MSCI Emerging Markets Index rising 37% during 2017.

The short-term outlook for global growth remains positive. The prevailing interest rate environment, ample liquidity and narrower credit spreads during the course of 2017 have combined to create conditions at the start of 2018 even more conducive to growth than those of a year ago.

In the U.S., a virtuous circle of economic conditions should support continued growth, as tight labour conditions lead to wage inflation, which in turn should underpin consumption and result in increased hiring. In this environment, companies are likely to expand capacity and investment spending, and positive signs were already emerging on this front at the end of 2017. The Evercore ISI Company Surveys, for example, showed the number of U.S. firms planning to increase capital expenditure had risen to a post-recession high.

The Euro area economy was a positive surprise for investors during 2017, while corporate balance sheets improved and credit growth accelerated. This in turn fueled a rebound in European business confidence and investment, with the German IFO business confidence index ending the year just off its record high after strong gains over the year.

The Japanese economy ended 3Q 2017 with its seventh consecutive quarter of positive sequential growth, the longest streak in 16 years, and an annualised growth rate of 2.5%. The outlook for Japan remained positive at the start of 2018, with exports recovering and both its manufacturing and non-manufacturing PMIs at near record-high levels.

In China, economic growth slowed slightly as the year progressed, but remained robust. Real-time measures of industrial activity such as railway freight traffic, excavator sales and electricity production were growing at a healthy pace in early 2018, with exports also accelerating due to a weaker currency and stronger global growth. This, together with increased demand for consumer goods and property and growth in industrial output, has fed through to producer prices. Higher selling prices, in turn, have fueled a rebound in industrial company profits, which should support business capital spending in the first half of 2018.

While economic conditions remain relatively supportive, the short-term outlook for equity markets is less certain. With global equity markets having already posted high double-digit returns since 2016, it would appear to be a matter of time before attention reverts to fundamental issues such as record high corporate debt levels, and the sustainability of earnings growth. Potential triggers could be the continued unwinding of monetary stimulus in the U.S., Europe and China, rising interest rates in the U.S. or U.K., or sudden, unexpected geopolitical developments.

KEY DEVELOPMENTS

Internal Equities continued its selective recruitment during 2017, which resulted in new appointments to the Europe and Japan mandates and to the department 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.

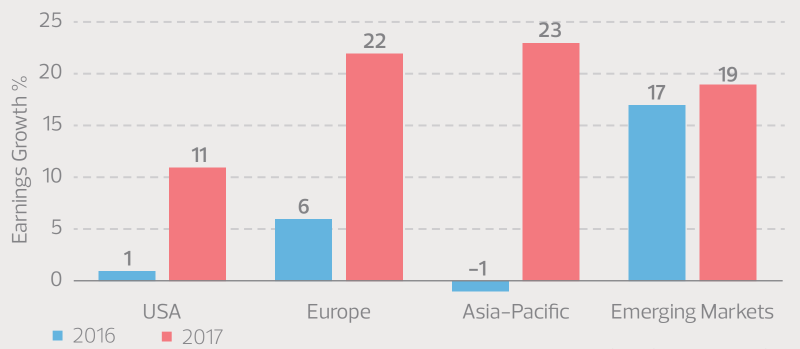
Internal Equities conducted a study in 2017 on how Big Data, Machine Learning and Artificial Intelligence are changing the investment landscape, following a peer-review process that highlighted the varying level of industry response to technology advances.

This resulted in the adoption of several initiatives relating to data capture, data storage, stock analysis and factor exposures, which have improved operational efficiencies and will be used to highlight investment opportunities. The Department also used the exercise to improve its Market Information Systems usage and the way it stores, manages and disseminates proprietary research data.

In keeping with ADIA's emphasis on developing its UAE National talent, a number of UAE National trainees were placed into roles across Internal Equities in 2017 as part of ADIA's Early Career Development programme.

In External Equities, meanwhile, the Department completed a review and restructure of the various exposures that constitute its single investment pool. This work analysed long-term structural shifts that will impact active funds management and identified the Department's strategic opportunities to achieve excess returns across its exposures. The team also began a project to explore ways to further leverage existing research and resources to deliver additional outperformance for ADIA.

GLOBAL EQUITY INDICES EARNINGS GROWTH



Source: Bloomberg, MSCI Indices

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.

2017 REVIEW OF THE YEAR

Fixed income markets in 2017 were characterised by their stability, with global interest rate, equity and credit spread volatility all at decade-low levels.

As in the past, the steady, low-yielding environment acted as a spur to risk taking, with the main beneficiaries of fund flows being either non-U.S. Dollar sectors, such as emerging market local debt, or those offering higher yields such as U.S. high yield bonds.

The factors driving last year's benign fixed income landscape were primarily healthy economic growth, stimulative global monetary policies, low actual and expected inflation, and strong demand for assets with higher yields. Political uncertainty in Europe and the U.S. flared up throughout the year but the effect on markets was temporary, overshadowed by supportive monetary policies.

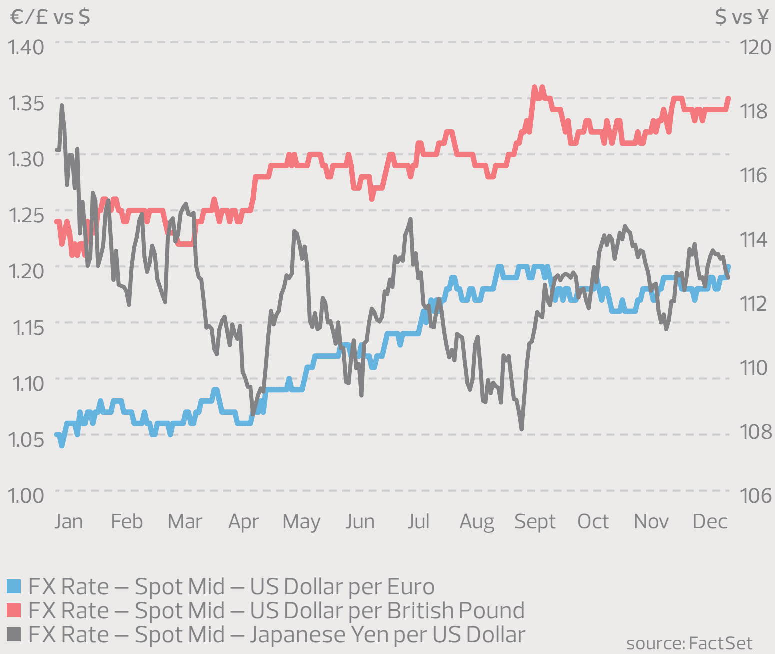
Interest rates ended 2017 close to multi-decade lows in most non-U.S. markets. German 10-year notes closed at roughly 0.35%, Japan at 0% and the U.K. at 1.25%. The U.S. Government market, meanwhile, saw a pronounced mid-to-late cycle flattening of the yield curve, as healthy economic growth began to feed into expectations of tighter monetary conditions. Yields for 10-year notes fell by 0.10% while 2-year note yields increased by approximately 0.50%.

Currency markets saw the greatest absolute volatility during 2017, with the U.S. Dollar coming off its highs at the start of the year to lose around 9% versus the Euro, 3% versus the Yen and 4% relative to a basket of emerging market currencies. The Dollar's decline was driven in part by large speculative flows as global growth expectations improved throughout the year. By the end of 2017, however, prospects for the Dollar remained supported by a large and growing positive interest-rate differential versus other global markets, and a historically large speculative short position in the USD.

Credit markets turned in another strong performance for 2017, led by unhedged Euro credit, emerging markets and high yield. Returns for the year ranged from 6% in U.S. investment grade credit to 17.7% in unhedged Euro credit. The combination of modest economic growth, low projected default rates and a widespread demand to add higher-yielding sectors of the market provided strong support for credit in general and higher-yielding sectors in particular.

2017 will likely be viewed as the year that marked the beginning of the end of global quantitative easing, at a time of relatively full valuations in both yields and credit spreads. As markets transition away from their dependence on central bank support, investors can expect valuation levels to revert to more normal levels, with wider spreads and higher yields, along with modestly higher volatility.

DOLLAR PERFORMANCE VERSUS MAJOR CURRENCIES



source: FactSet

KEY DEVELOPMENTS

Over the past two years, Fixed Income & Treasury has successfully implemented a diversified portfolio within its mandate, in order to increase active risks across market segments. In 2017, the Department began expanding its diversified approach across a larger asset base within its operating model, providing the investment teams with a greater pool of actively managed assets, while reducing operational overheads. This, in turn, increased productivity and reduced complexity.

The success of the strategy was demonstrated in 2017, as the treasury, internal and external fixed income teams produced strong relative returns against their multi-beta investment strategies.

Also during the year, Fixed Income & Treasury conducted research on style factor investing, applying an equity-type strategy of selecting the four most reliable factors of generating outperformance – quality, momentum, size and value – to fixed income securities. This was implemented within the Department's High Yield and Global Government Bond mandates.

The Department is currently in the process of working with various stakeholders to review its guidelines and plans to implement key changes supporting the evolution of its operating model during 2018.

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 discretionary hedge funds, systematic hedge funds (commodity trading advisors and multi-strategy, quantitative funds) and Emerging Opportunities. 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. Systematic hedge funds, meanwhile, execute 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.

2017 REVIEW OF THE YEAR

Financial markets were characterised by low volatility in 2017, supported by better than expected global economic growth, favourable outcomes in European elections, stability in China and the gradual normalisation of monetary policy by central banks. In equities, both developed and emerging markets enjoyed double-digit returns, with growth stocks performing well. Bond markets were range-bound, while most credit instruments rallied on economic growth and interest rate stability. Commodity market performance was mixed with economically-sensitive commodities such as oil and copper enjoying strong recoveries as the global growth theme spread worldwide in the second half of the year. The Dollar weakened significantly and steadily over 2017 and only began to stabilise when the expected fiscal expansion in the U.S. gained traction in the third quarter and political uncertainty emerged in Germany.

However, one of the most notable factors in 2017 was how immune market outcomes were to political events and geopolitical tensions. A long list of potentially destabilising events were absorbed and new highs reached as the markets remained focused on favourable growth and liquidity conditions.

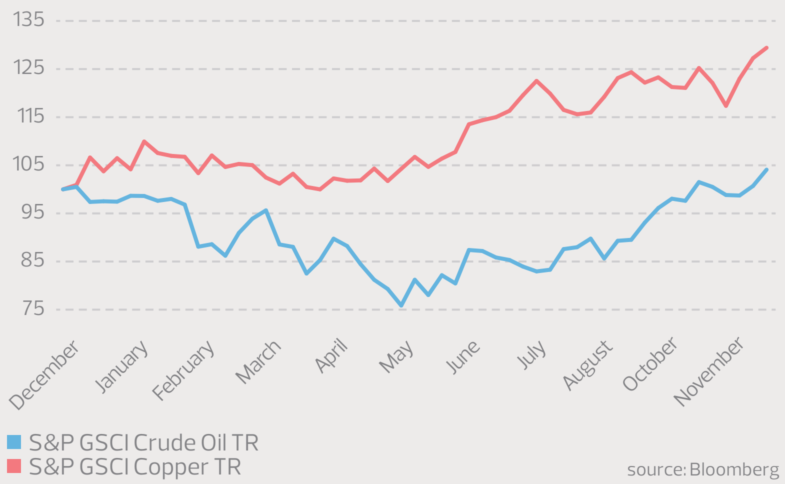
Given the positive equity market performance during the year, equity-linked hedge fund strategies benefitted with many managers outperforming long-only, broad-based passive indices for the first time in many years. Returns were driven by prescient stock selection in a low correlation, high dispersion and thematic environment for equities.

M&A and other corporate events provided additional opportunities for returns in 2017, particularly for high yield strategies. With its broad diversification of strategies, the Alternative Investments Department reported a positive performance in 2017, with particularly strong contributions from equity hedge and event-driven strategies.

Among systematic funds, the first half was generally weak as trend-followers adjusted to the changed growth environment. However, this was followed by a strong second half as portfolios embraced emerging trends from growth-sensitive underlying assets, particularly equities, oil and copper. As in previous years, the Department's CTA mandate recorded a positive outcome in 2017, due in large part to its strategic diversification into non-trend, systematic, multi-strategy managers with models focused on fundamentals, unique data sources and advanced algorithms.
Having enjoyed a strong end to 2016 following the U.S. presidential election, discretionary macro managers were generally slow to unwind their long Dollar, short bond bias. This impacted Dollar/Euro positions while short bond positions suffered in 2017's benign interest rate environment. The macroeconomic backdrop was favourable, however, for emerging market currencies, rates and equities, with good performance reported by most managers in this segment. Conditions entering 2018 appear more favourable for this strategy given the stage of the business cycle and the potential for new policies to emerge from central banks to deal with surging growth and potential inflation.

Relative value managers reported positive, steady results, taking advantage of mispricing and adequate volatility in and among sovereign bonds, credit and their derivatives, and also in select cross-asset class opportunities. Structured credit stood out as well-engineered; hedged strategies in residential and commercial-backed mortgages and their derivatives proved successful.

INDEXED CRUDE OIL AND COPPER RETURNS 2017



source: Bloomberg

The outlook for 2018 is dependent on a number of factors, including the path of U.S. interest rates under new Federal Reserve leadership, the continuation of strong, non-inflationary growth and whether geopolitical events continue to have little impact on market outcomes. The electoral calendar is busy, with important elections in Italy, the U.S. and elsewhere. However, it appears that the persistent low volatility, high correlation markets of the post-2008 era are drawing to a close, providing a favourable market backdrop for most hedge fund strategies.

KEY DEVELOPMENTS

Following the expansion of the Department's investment universe in 2016 with the introduction of the Emerging Opportunities mandate, our priorities in 2017 included the continued development of our talent, processes and performance. The Department made several new hires in the hedge funds and operations teams, while a new training regime was introduced to provide career development opportunities for recent UAE National graduates.

Real Estate & Infrastructure

The Real Estate & Infrastructure Department is responsible for building a globally diversified portfolio 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 establishing and maintaining a 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.

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.

2017 REVIEW OF THE YEAR

Despite a backdrop of continued geopolitical concerns, the synchronised upturn in global economic growth during 2017 was generally supportive of real estate fundamentals. Capital remained readily available, asset prices were driven to record highs by the continued demand for income and property yields reached record lows in most developed markets. Yet, commensurately low government bond yields supported the thesis that real estate as an asset class is not overvalued when assessed using its long-term spread to risk-free rates.

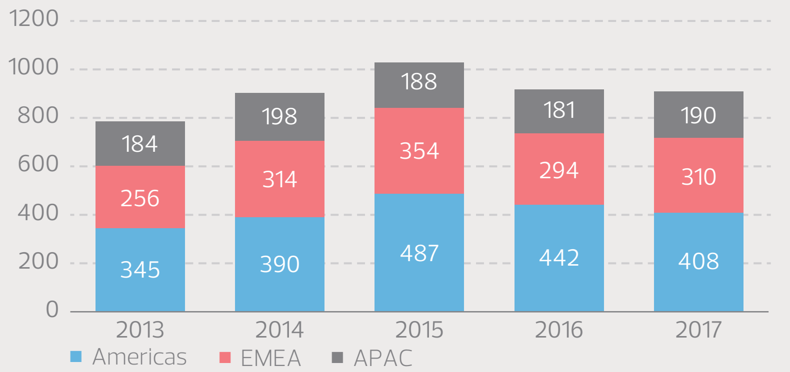
However, transaction volumes continued to trend down during the year, as investors became increasingly selective and the supply of available assets diminished.

During 2017, investment conditions in the U.S. continued to move into the latter stages of what has been an extended cycle. E-commerce growth continued to place the retail sector under significant stress and provide a catalyst for increased focus on the logistics sector.

In Europe, property market fundamentals continued to improve and investor interest broadened to less mainstream markets, including Portugal and Central and Eastern Europe. Risks associated with Britain's exit from the European Union provided some headwinds for the occupational market in the U.K. but these were offset by continued solid economic growth and low unemployment.

In Asia-Pacific, investor sentiment in gateway markets remained robust, underpinned by improving leasing demand, attractive yield spreads and

GLOBAL COMMERCIAL REAL ESTATE TRANSACTION VOLUME BY REGION (2013–2017)



Source: Real Capital Analytics, RED Research, January 2018

supportive government policies. In China, ongoing concerns about home affordability resulted in a series of government measures to rein in prices, particularly in Tier 1 cities, while tighter capital controls on outbound investments helped to further drive domestic demand for quality real estate products.

Meanwhile, international infrastructure markets in 2017 were characterised by the continued expansion of investor interest, as demonstrated by the emergence of new mega funds and successful raisings by existing funds.

Accordingly, competition for assets continued to strengthen, asset prices climbed and returns slowed, particularly in core markets. This led to a recycling of infrastructure assets by traditionally long-only pension funds, who took advantage of attractive valuations. The industry closely followed developments in the U.S., where government plans for a major infrastructure investment plan continued to circulate, while investor interest in emerging markets continued to grow, particularly in India.

The outlook for infrastructure asset valuations in 2018 is less certain than in recent years and will be shaped by political and policy considerations. Tightening monetary policy may push up discount rates and impact asset valuations, although anticipated government spending, particularly in major markets, may help to offset these factors and underpin further growth.

KEY DEVELOPMENTS

As the investment cycle matured, the Real Estate team's pace of acquisitions moderated during 2017, however the team continued to take advantage of strong capital market conditions in some areas to selectively sell assets. Significant milestones were also achieved in the development portfolio. Construction was largely completed on the Waterline Square residential project in the Upper West Side of Manhattan, with condominiums offered for sale in the third quarter. In Europe, the Mall of Switzerland was successfully opened in November. In Asia, the One Museum Place office tower in Shanghai and the Paya Lebar Quarter mixed-use development in Singapore made good progress and were on track for completion by early 2018 and mid-2019 respectively.

In Infrastructure, the team remained active in pursuing new investment opportunities, including the targeting 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 two investments in India: a deal to become the first investor in the government-backed National Investment & Infrastructure Fund (NIIF) and the purchase of a minority stake in a roads platform, Cube Highways.

The team was also active in evaluating investment opportunities from within its existing portfolio, including regular interactions with our global investment platforms to evaluate add-on opportunities. From an organisational perspective, the team conducted a review of its divisional structure and has commenced a project to analyse its optimal long-term portfolio allocations, which will report in 2018.

Private Equities

The Private Equities Department is responsible for investing in private equity and credit products globally, 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 across all private equity and private credit products and geographies. Investment teams are organised into three geographic regions (Americas, EMEA & Asia-Pacific) and are supported within the Department by the Risk & Research, Finance and Operations functions.

2017 REVIEW OF THE YEAR

The global private equity market remained buoyant in 2017, with valuations reaching new highs amid strong investor demand for new funds.

Important themes continued to define the market, including increased competition for co-investments among large Limited Partners (LPs), a growing number of longer-life, lower return opportunities, and growth in Chinese and Indian private equity markets.

Despite late-cycle warning signs, including high leverage and dry powder levels across segments of the industry, many LPs sought to increase private asset allocations as a means to offset low returns in other asset classes. A number of the largest global private equity managers responded by bringing forward their fundraising windows and closed record-sized funds to capitalise on demand.

Average entry multiples reached record highs on both sides of the Atlantic, with valuations driven by the availability of debt, pressure to deploy capital, and competition with strategic buyers.

The total value of private equity transactions in 2017 continued the downward trend seen over the past three years, with capital deployment remaining significantly below the peak observed in 2007. Indeed, slight declines were recorded in all major geographies apart from Asia, which experienced strong growth towards the end of the year.

The picture was very different for fundraising. Industry fundraising during 2017 surpassed the records set in 2007 and 2008. As a consequence, the level of dry powder is expected to reach record highs globally, with its ratio to investment volume reaching the highest level since the financial crisis.

2017 also saw significant levels of exit activity by private equity investors as net cash-flows to LPs rebounded from the lull in 2016 that followed an exceptionally strong 2014 and 2015.

Against this backdrop, the Private Equities Department posted another year of strong performance in 2017, led by strong earnings growth in portfolio assets and a robust exit environment.

Looking ahead to 2018 and beyond, current valuation levels and increasing competition for deal-flow amongst market participants suggests that the industry might enter a period of lower returns than those experienced in recent years.

KEY DEVELOPMENTS

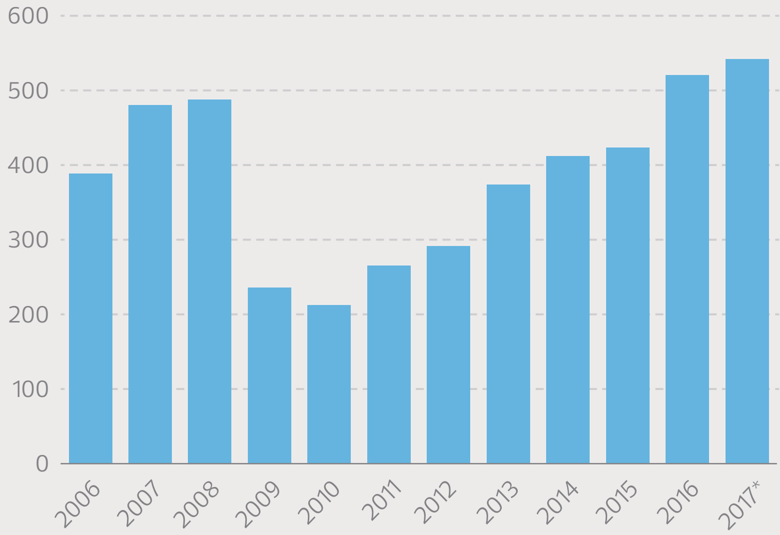
The Department continued to work more closely with its core managers in 2017 to further its strategic objectives of increasing control over its capital and building sustainable competitive advantages. The Department's activities during 2017 focused on private equity, private credit fund and principal investments and on concentrating its commitments with General Partners (GPs) that have consistently supported its strategy.

2017 also saw the Department complete a reorganisation to better support its objectives, moving from product-focused to regional teams, with an emphasis on building expertise in five key industry sectors: Financial Services, Healthcare, Industrials, Technology and Consumer. During the year, a new Head of Asia-Pacific was appointed in addition to sector heads for Financial Services, Healthcare and Industrials. Recruitment processes were initiated for the Technology and Consumer sectors.

The Department participated in a number of key transactions during the year. It invested alongside one of its core partners in a complex corporate carve-out of Alight Solutions from Aon plc, creating a leading technology-enabled benefits provider, and participated in an investment in contract research organisation, Pharmaceutical Product Development LLC. Both investments drew on the Department's sector expertise and were consistent with an approach of seeking principal investments in market-leading businesses alongside strong and high-quality partners. Later in the year, the purchase of a significant minority stake in KKR India Financial Services, an Indian alternative credit provider, increased the Department's exposure to one of the world's fastest growing and dynamic markets, and benefited from the combination of the Department's Asia-Pacific regional expertise and its Financials sector practice.

In 2018, the Department will continue to deploy capital in line with its strategy of increasing its sector-led principal investment activity. Consistent with its view of a high valuation environment, the Department will persist in evaluating structured equity opportunities, defensive industries and less correlated investments across the private asset spectrum, with a particular focus on identifying relative value across geographies and capital structures. It will also continue to work closely with its core financial and industrial partners to identify the investments offering the best risk-adjusted returns in evolving market conditions.

ANNUAL PE AND VC FUNDRAISING
$ BILLIONS



* As at 31 Dec 2017

source: Prequin

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 55% 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.

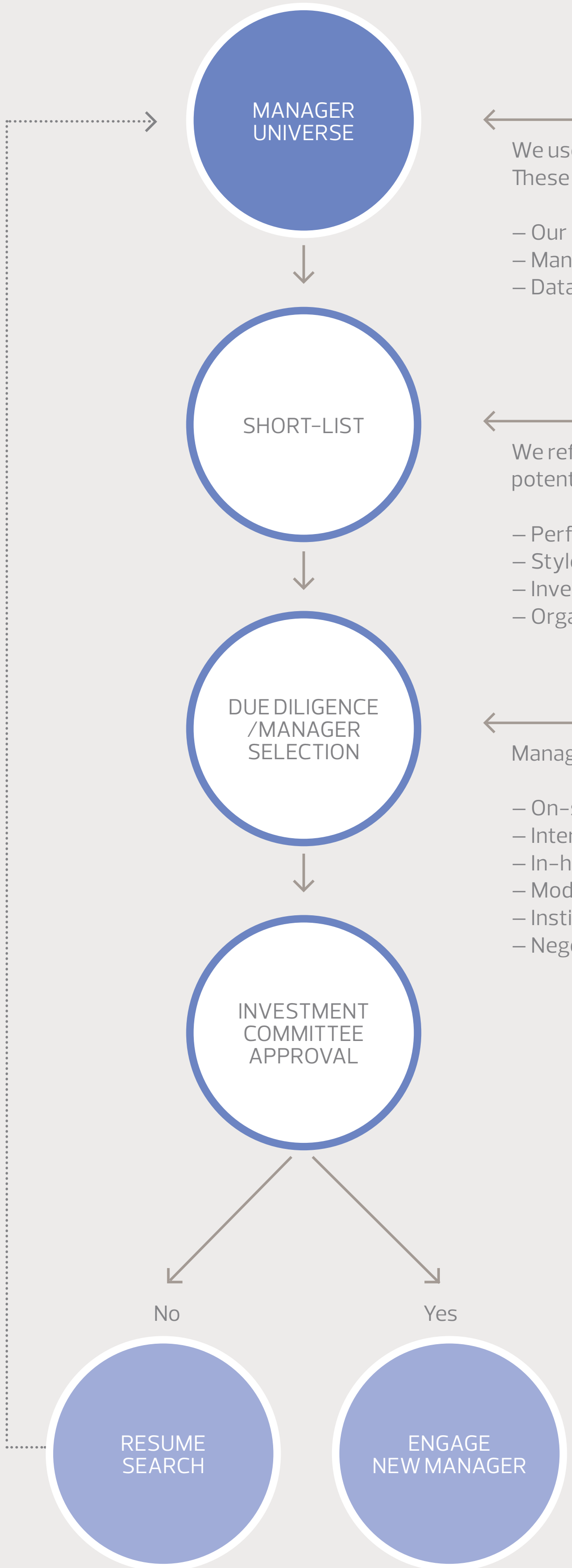
The sequencing of due diligence activity varies by asset class, but always includes quantitative factors and qualitative views, informed by gathering and analysing relevant data, face-to-face meetings with managers and the expertise of our internal investment and due diligence teams.

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, Legal Division 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 an 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
– Negotiation of draft investment and commercial terms

– 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.

– ADIA's financial accounting processes, the corporate general ledger and related controls.

– Preparing ADIA's financial results, including the audited annual financial statements in accordance with International Financial Reporting Standards (IFRS).

– Liaising with ADIA's external auditors and supporting ADIA's investment departments, the Audit Committee and other key committees.

Financial Planning and Analysis is responsible for:

– Supporting ADIA's financial strategies by providing insights to committees and departments on the financial contribution of activities and initiatives.

– Providing transparency on financial trends and key performance indicators through management reports and analyses.

– Budget management, forecasting and cost benefit analyses.

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.

– 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) serve as the primary HR contact for ADIA's leadership and departments. The HRBPs lead the integration and delivery of all HR processes and programmes. This includes providing guidance and support to departmental leadership to ensure structures, processes and management practices remain aligned to ADIA's mission and strategy. Additionally, the HRBPs provide continuous feedback from departments to Human Resources for consideration as HR policies and processes are reviewed and refined.

– The Recruitment team is responsible for supporting departments in identifying and hiring top talent from the UAE and around the world. The UAE National Recruitment team 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 UAE National Development team supports this effort by nurturing and supporting the development and growth of our UAE Nationals from early career through becoming investment professionals and the leaders of ADIA.

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

– The Facilities & Procurement and Employee Services teams enable a productive and secure working environment and deliver support and services to improve the efficiency and productivity of ADIA employees.

– 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.

INFORMATION TECHNOLOGY DEPARTMENT

Information Technology is responsible for sourcing, developing, and supporting 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 providing technology solutions aligned to business strategy.

Service delivery and support professionals ensure that the Department provides service to internal partners, while its business analysts, project managers, and software engineers are responsible for developing new functionality to support ADIA's operations.

The Department is also responsible for ensuring a secure working environment through advanced cybersecurity techniques and strategic disaster recovery planning.

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 that:

- 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.
- 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 the Strategy & Planning Department 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.

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.

INVESTMENT SERVICES DEPARTMENT

Investment Services provides operational risk management, risk reporting, data management, performance analytics, and guidelines monitoring to enable and strengthen ADIA's investment process.

The Department is divided into four main areas of focus:

– Operational Risk Management embeds operational excellence and resilience through the implementation and coordination of the ADIA-wide Operational Risk Framework. The team's activities include performing operational due diligence on external entities, counterparty risk assessments, internal risk reviews, policy development and business continuity management.

– Data Management manages data as a strategic asset for ADIA enabling accurate and timely data across the organisation. The team also leads the development and implementation of the ADIA-wide Data Governance Framework.

– Performance Analytics & Risk Reporting maintains ADIA's performance methodology and standards. The team's core responsibility is to independently report on performance, risk and investment guidelines both on the total portfolio and individual asset classes.

– Guidelines Monitoring & Regulatory Filing performs daily monitoring and provides internal transparency on ADIA's guidelines and regulatory limits. The team also makes a range of regulatory filings.

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 & Planning Department, Evaluation & Follow-Up Division, Internal Audit Department, and Legal Division.

GOVERNANCE

The Risk Management Committee (RMC) oversees the effective implementation of ADIA's risk management framework and ensuring that all risks are addressed by relevant departments in a timely manner. It seeks to facilitate a proactive dialogue 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.

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 and the Strategy & Planning Department, working closely with investment teams, are responsible for protecting ADIA's assets and adding value to the investment process through performance analysis and core risk management responsibilities. These entail leading the disciplined execution of the risk management framework and promoting a culture of risk awareness.

The Departments' risk analyses include:

- 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.

– 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 of ADIA's investment departments has its own 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.

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.