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The Abu Dhabi Investment Authority (ADIA), which has employees from more than 40 nations, is one of the most diverse fund managers in the world. It may also be the world’s largest sovereign wealth fund (SWF), with assets estimated at more than US$600 billion. In an interview with CFA Magazine, Saeed Al Hajeri, CFA, a member of the CFA Institute Board of Governors and executive director of ADIA’s emerging markets department, offers a rare glimpse inside the fund’s operations. A member of ADIA’s strategy committee, Al Hajeri completed his studies at Lewis & Clark College in Portland, Oregon, and then spent five years in ADIA’s London office before returning to the fund’s home base in the United Arab Emirates. In this interview, Al Hajeri speaks about ADIA’s unique culture, its recent transparency initiative, and the creation of the SWF-guiding Santiago Principles.

What’s it like to work with such a multicultural workforce?
The different cultures represented at ADIA (69 percent of employees are from countries outside of the United Arab Emirates) bring a real diversity of thought and experience that allow issues to be looked at from many perspectives. It drives you to be more sensitive to how people look at the world and how they think. We have the Western mentality and the Middle Eastern and the Far East all in one room, although there are, of course, similarities in their backgrounds, education, and experience.

Because of the strong emphasis ADIA puts on recruitment, we are fortunate to employ some of the top professionals in the world in their respective fields. And I think they recognize that it’s in all of their interests to embrace any differences that may exist and work together as effectively as possible. For this reason, there is a sense within ADIA of greater tolerance, acceptance, and respect for different approaches and ways of thinking, because we have learned that this leads to better results.

Has ADIA always had such diversity?
The United Arab Emirates is less than 40 years old. When ADIA started in 1976, we had a shortage of local talent to draw upon and had to recruit people from everywhere. Most of the technical know-how was not available here yet. The diversity has increased further over time, along with the diversity of our investments, but I would also say that the globe has become a smaller place, a smaller village. So the differences between cultures have also decreased over the years. We also are fortunate now to have access to a much bigger—and rapidly growing—pool of home-grown talent.

How do different backgrounds affect the investment process?
It brings a broader range of perspectives to any internal debate that is always healthy. But, as you would expect, ADIA has very clearly defined policies, processes, and systems that have evolved over many years. These are to ensure that we remain focused on our broader mission: to safeguard the current and future welfare of Abu Dhabi and its people.

What do Middle Eastern and Western cultures each bring to ADIA?
It’s always dangerous to generalize, but, broadly speaking, the West brings a certain data-based, structured discipline and a sense of urgency to make decisions and achieve results. The Middle Eastern approach tends to be more long term and holistic, with an emphasis on relationships and an overriding sense of what is sustainable and good for the overall community. But both are essential in making ADIA what it is today.

ADIA is noted for its employee development. Why is this?
Sheikh Zayed bin Sultan al Nahyan, the founding president of the United Arab Emirates, recognized the development of people as a fundamental principle of advancing as a nation. His legacy has been carried forward into ADIA today, where a commitment to developing technical and leadership capabilities is viewed as a core part of our mission. We are proud to have world-class training facilities on site and a wide range of programs that are tailored to each of our departments’ goals and needs. This includes guest speakers and programs designed specifically for ADIA by some of the top universities and business schools around the world.
Can you describe these programs?

We’ve designed a core training program for development at ADIA. Part of it is in-house and part of it is outsourced. For example, we have a very strong relationship with Harvard Business School. Over the past 10 years, dozens of our carefully selected executives have graduated from Harvard Business School’s comprehensive leadership programs. In addition, some of the world’s best business schools’ offerings have been modified to suit ADIA training. We’ve developed topics on general management, private equity, and real estate. And some of the investment banks that we think highly of, we’ve brought some of their senior people to present to our junior staff. We also use external development sources. We send people to the United States and to the United Kingdom and Europe for different courses and training. We have a full-time in-house program to train people for Level I, Level II, and Level III of the CFA exam. We have an instructor who basically gets together all of the Level I and Level II candidates and trains them.

Finally, ADIA is firmly committed to developing local talent. Our scholarship program reaches back into United Arab Emirates schools to identify, develop, and track students at an early age who we believe have the potential to be leaders of the future. We actually interview them and conduct psychometric testing at the high school level. From there, we monitor them. We get a quarterly report and have a dedicated department, following up on them and making sure they are doing their studies. Upon graduation, selected students are sponsored by ADIA to attend universities, usually in the United States or Europe, after which an assessment is made by both parties as to their interest and suitability for a career at ADIA.

What do you do as executive director of the emerging markets department?

In emerging markets, much of our time is spent on selecting and monitoring the external managers we employ to manage our long-only equity portfolio. We have a very rigorous process that begins by creating a long list of potential managers sourced from extensive internal databases that we have built up over many years and updated through our ongoing due diligence and program of manager meetings. We then analyze these managers on multiple criteria, conduct face-to-face meetings, and finally create a short list, which is then subject to even greater scrutiny.

The department also houses ADIA’s infrastructure group, which targets minority investments in global infrastructure assets alongside proven partners. In the infrastructure group, we start by focusing on markets with strong and transparent regulation and legal frameworks and low political risk. Broadly speaking, my role involves setting the department’s strategy and ensuring that we, as a team, are always adapting to changing industry and market dynamics. But it also means being available to provide guidance and support to the team in their day-to-day activities and ensuring that they feel challenged and have opportunities to develop their careers as well as lead a balanced personal life.

It sounds like a cliché, but our strength really is our people. And ADIA devotes considerable time and resources to ensuring that we not only attract the best local and international talent but also that we are able to motivate and retain them.

Are you using active strategies, indexed, quantitative?

We use index tracking strategies for the majority of our assets in emerging market equities. For our actively managed external equity strategies, we use a variety of different philosophies—from value to growth and from quantitative to fundamental—while targeting strong and stable alpha streams over time. If we believe a strategy is sustainably alpha generative and it fits sensibly into our balanced construct, then it is likely we are invested in it.

What kinds of infrastructure investments interest you?

We look to diversify across the frontier region between North America, Europe, and the Far East (which includes Australia for us), so we try to divide the portfolio between these three regions. On top of that we also look at diversity of sectors or assets. The types of assets that fit into this include airports, highways, hospitals, power stations, and gas pipelines. Our focus is really long-term assets with long-term stable yield, usually high-yield assets with good cash flow, stable cash flow, not the risky type of infrastructure—more like the structure of a bond rather than the structure of private equity. We are also minority investors and don’t seek to operate the assets we invest in.
How has participation in the CFA Institute Board of Governors informed your work at ADIA and vice versa?

I have been impressed by how the CFA Institute Board of Governors applies corporate governance as a practice, how it interacts with management, and the way it divides responsibilities across committees that specialize in different issues. The differences with ADIA are subtle and more a question of style than substance, but I appreciate the fresh perspective and the opportunity to use different ways of approaching certain situations.

But, as you correctly note, this is a two-way street. I think there is a lot to be learned from ADIA’s sensitivity to cultural differences and the way it has evolved over time to incorporate such a wide diversity of opinion and approaches. This has created a business environment and approach to corporate governance that is uniquely ours and different from many major organizations but extremely effective in terms of outcome.

What is unique about ADIA’s corporate governance approach?

When you think of the diversity of cultures and the long-term approach of ADIA, as well as being in the Middle East and accepting a lot of investment globally, it makes us really conscious about how ADIA is perceived and how ADIA as an institution is accepted globally, coming from the Middle East, coming from Abu Dhabi. Sometimes we look at what is the political perspective of an investment and how we as a small city out of the Middle East will be looked at when we invest. Over the years, that has adapted us to a different style of corporate governance in terms of what is suitable and what is not suitable, because we see ourselves as genuinely long-term investors. We don’t just say it; we do it. And because we are looking at things long term, we need to adopt a different behavior when it comes to committees and how we actually make decisions, more toward the efficient market hypothesis and away from behavioral finance. We always have to remind ourselves that because we are long term, our corporate governance and discipline should be different from very short-term investors who are looking at the day-to-day profits or day-to-day investments. That is really the uniqueness of ADIA—a pure and a true long-term investor.

What would a Westerner notice about working in Abu Dhabi?

When you come to a different culture, you mingle with a society that has its own tradition—what to do in public and what not to do, the types of jokes, and things like that. It isn’t really a big adjustment, I have to say, because ADIA is very much open to all kinds of cultures. But, for example, the American culture is easy about joking in public and making fun in public, whereas some other cultures are very reserved. For example, the English are less about joking around. But people accept people for who they are, and to be honest, there is no American style or U.K. style or European or Indian style. It is very much individual, but there are common characteristics of certain cultures and these are common characteristics that we should be aware of.

For instance, in some cultures, people just like to be part of the meeting and feel that they are actually involved. In the Western mind, sometimes efficiency and getting a meeting done on time is more important. Balancing the two and being sensitive about giving people enough time as part of the meeting is always essential. In some cultures, people feel that if they didn’t say much, then they are not part of the meeting. In the Western way of working, getting the decision made is more important than who participated.

What might be characteristic about the culture in Abu Dhabi?

People tend to be family oriented here. They are concerned about the whole social being of a person, and that extends to more than just the office. They care, and they ask, “How is your wife, how are your kids?” And they tend to be more socially minded than other cultures. Mingling with your employee’s family and meeting each other is a common practice, more than in other places. People tend to host each other in their houses more than you would see in other cultures, as opposed to going out to a restaurant. The common thing about ADIA is that ADIA is part of the society and very visible in Abu Dhabi, given that it is a smaller city and a smaller culture. If you work at ADIA, you are recognized, and you are seen as having a prestigious job, a well-respected job, and doing a great thing for the country. So working for ADIA, you have a sense of pride and a sense of recognition in society and, at the same time, a sense of responsibility because of that.

What challenges has ADIA faced in building its reputation in the West?

Reputations are built over time and through behavior and actions, not words. We are fortunate in having built strong relationships over many years with governments, regulators, and other investors, who I think appreciate our clearly defined mission and long-term focus. More recently, interest in SWFs in the media and other quarters has led a broader group of parties to focus on the activities of government-owned investing institutions. For this reason, ADIA has sought to play an active role in building understanding of this investing class through our participation in the International Forum of Sovereign Wealth Funds (IFSWF) and the creation of the Santiago Principles, an exercise we co-chaired alongside the International Monetary Fund (IMF).

Why did ADIA want to take a leading role in developing the Santiago Principles and participating in the IFSWF?

The IFSWF was born out of the International Working Group (IWG) of SWFs, which was responsible for the creation of the Santiago Principles that reflect governance
and accountability arrangements as well as the prudent and sound basis on which SWFs conduct their investments. ADIA was pleased to accept the role of co-chair of the IWG, alongside the IMF, at the request of all the other SWF participants, as a means to underline our commitment to building a clear understanding of the role that SWFs play in promoting the free flow of global capital and investments.

The adherence by SWFs to the Santiago Principles is meant to demonstrate to home and recipient countries and the international financial markets that SWFs have robust internal frameworks and governance practices and, most importantly, that SWF investments are made only on an economic and financial basis. While these principles are voluntary, members are expected to support them and either implement or aspire to implement them. Indeed, an endorsement of or compliance with these principles is a necessary condition of membership in the ongoing IFSWfs. These principles do not govern recipient-country behavior, but, recognizing SWF compliance with the principles, recipient countries are expected not to subject SWFs to any requirement, obligation, restriction, or regulatory action exceeding that of other investors.

Why has ADIA chosen to be more transparent publicly?

We recognized over time that there are people who are actually interested in knowing about ADIA. We had been operating by thinking, perhaps naively, “Why would they want to know?” But we have recognized that as a responsible long-term investor, we need to build understanding in the market about what we do and how we do it. We created our new communications department for two main purposes: internal communication within ADIA and external communication to share ADIA’s story with our stakeholders. We are not targeting the retail or institutional investors. We are targeting recipient countries, regulators, and people who are specializing in the industry so that they understand us better and are able to attract the right sorts of opportunities and partners. So, one of the things that our communications team came up with was ADIA’s first annual review. Our website has also been upgraded to cover many subjects that we never covered before. And we are doing more targeted publicity, such as with CFA Institute and others. We see CFA Institute as a good proxy of what ADIA is all about and what ADIA has really practiced. In CFA Institute, we see a good reflection of what we are.

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