

ADIA

2013 Review

Our mission

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

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Since 1976, the Abu Dhabi Investment Authority has been prudently investing funds on behalf of the Government of Abu Dhabi with a focus on long-term value creation.



At a glance

ADIA manages a global investment portfolio that is diversified across more than two dozen asset classes and sub-categories.

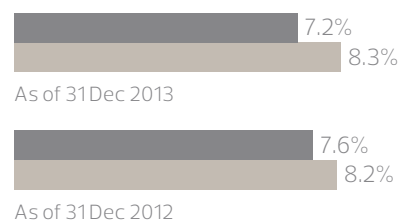
With a long tradition of prudent investing, ADIA's decisions are based solely on its economic objectives of delivering sustained long-term financial returns.

Where we invest



- ADIA has 38 years' experience of investing in global markets.
- We employ more than 1,500 people from over 60 nationalities.
- Approximately 75% of ADIA's assets are managed by external fund managers whose activities are subject to careful oversight by internal ADIA teams.
- Around 55% of ADIA's assets are invested in index-replicating strategies.

Annualised returns %



● 20 YRS (P.A.) ● 30 YRS (P.A.)

Note: Performance for 2013 remains provisional until final data for non-listed assets is included.

Investment performance

In U.S. dollar terms, the 20-year and 30-year annualised rates of return for the ADIA portfolio were 7.2% and 8.3% respectively, as of 31 December 2013. Performance is measured based on underlying audited financial data and calculated on a time-weighted return basis.

Relationship with the Government

ADIA carries out its investment programme independently and without reference to the Government of Abu Dhabi.

ADIA has no visibility on either the spending requirements of the Government of Abu Dhabi, or the activities of other Abu Dhabi entities established by the Government to make investments. Our assets are not classified as international reserves.

[See Relationship with the Government of Abu Dhabi on pages 42–43 and Governance on pages 44–47](#)

Our people

ADIA's people are as diverse and international as our business, with over 60 nationalities combining to create a highly collaborative work environment that embodies our cultural values.

Our goal is to attract, develop and retain world-class talent and provide the resources for our people to realise their full potential. We place a particular emphasis on the development and training of UAE Nationals.

[See People on pages 52–61](#)

Letter from Hamed bin Zayed Al Nahyan

Managing Director



1,500
employees

60
nationalities

38
years' experience of investing
in global markets

2013 was a year of continued consolidation and growth for ADIA, both internally, in the way that we organise ourselves and fulfil our mission, and in the markets where we invest.

We continued to build out selected investment and non-investment teams, while further enhancing alignment and collaboration across the organisation. We also conducted a refresh of the ADIA brand, of which this, our fifth edition of the ADIA Review, is the most visible manifestation. As with everything ADIA does, the changes you will see represent an evolution rather than a drastic shift in direction.

We recognise that change is inevitable, indeed necessary. As long-term focused investors, it is our responsibility to identify and position ourselves for upcoming trends in the markets that we invest in. However, we are also profoundly conscious of the need to remain prudent and disciplined in all that we do, in order to fulfil the mission with which we have been entrusted for almost 40 years. In an ever-changing world, ADIA's approach must be one that

emphasises continuity over short-term gains. It is this careful balance, of discipline and flexibility, which is reflected in the look and feel of the document you are reading today and which drives our vision for ADIA's future, encapsulated by two words: Real Progress.

Over recent years, ADIA has taken steps to further enhance its internal capabilities, as well as the systems and processes that support them. This process, which continued in 2013, has resulted in a number of significant changes across the organisation. We have built out our investment teams in the illiquid space, such as real estate, infrastructure and, more recently, private equity, adding considerable expertise across geographies and asset specialisation. These efforts have strengthened ADIA's ability to take a holistic, global view of its investments, while also allowing us to target more specific opportunities with attractive return characteristics.

As our investment approach has evolved, so has the need for professional teams that are able to support our investment talent in a way that is seamless,

efficient and tailored to their specific needs. The creation of our Investment Services Department in 2010 was an important milestone in this process, bringing together a number of back office activities under a single umbrella, including a substantial centralised

“Over recent years, ADIA has taken steps to further enhance its internal capabilities, as well as the systems and processes that support them. This process, which continued in 2013, has resulted in a number of significant changes across the organisation.”

risk function comprised of leading professionals in their field. Together with individual risk managers located within all investment departments, they ensure that ADIA anticipates and responds quickly to potential obstacles or issues.

In 2013, ADIA's Accounts Department implemented a restructuring and refocusing of its activities, with the goal of becoming an increasingly effective partner to ADIA's investment teams. By listening carefully to their needs, the department has tailored its analysis and reporting to provide valuable insights to ADIA's investment professionals and decision-makers.

Information technology plays a critical role in the effective function of an organisation with ADIA's scale and complexity. Last year saw us continue a build-out and reorganisation of our IT Department that will align its services and individual skillsets with the exacting requirements of different investment functions.

During times of change, it is ADIA's people who implement our mission and drive our culture. It is only through their combined contributions that we have achieved our goals for the past four decades. 2013 marked the first full year of ADIA's Year One Graduate Programme for UAE National recruits, and I am proud to report that this resulted in 16 of our graduate recruits passing Level One of the Chartered Financial Analyst (CFA) exam. The achievements and hard work demonstrated by this new generation of talent provides me with great confidence that ADIA's mission will continue to be fulfilled in the years to come.

Finally, and on a more sombre note, in 2013 we sadly lost one of ADIA's leaders and a true embodiment of the ADIA culture, Dr. Jua'an Salem Al Dhaheri. During his 36 years at ADIA, Dr. Jua'an served in numerous roles including, mostly recently, as a member of ADIA's Board of Directors and Deputy Chairman of the Investment Committee. Dr. Jua'an is deeply missed by his colleagues and Abu Dhabi as a whole.

2013 – Market Review

Over the past year, the global economy transitioned from recovery to ongoing expansion. Global equity prices neared pre-crisis peaks, although with considerable variation across markets. Monetary policy in the U.S. and U.K. laid the foundations for the process of unwinding crisis-driven stimulus measures, while fiscal policies largely returned fiscal deficits to levels closer to historical norms.

Key initiatives

Continued to build out selected investment and non-investment teams.

—

Accounts Department implemented restructuring and refocusing to enhance collaboration with investment teams.

—

Information Technology Department continued targeted recruitment effort and reorganisation to meet specific investment needs.

—

Successful graduation of first intake to ADIA's Year One Graduate Programme for UAE National recruits.

Letter from Hamed bin Zayed Al Nahyan

Managing Director *continued*

“Looking forward, trends that have emerged over recent years appear likely to continue: global economic growth will increasingly be sourced from emerging economies; the developed world will gradually repair the damage wrought by the financial crisis; and fears of a relapse into crisis will give way to an understanding of the likely contours of a new economic expansion.”

2013 was another good year for equities, at least across developed markets. Measured in U.S. dollar terms, stocks gained more than 30% in the U.S. and over 25% in both Japan and Europe. The main driver of these gains was the expected impact on future corporate earnings of better-than-anticipated growth, especially in Europe where economies began to emerge from recession during the summer. In the U.S., fears that fiscal tightening would derail growth proved unfounded. At the same time, gains in Japan were supported by a major shift in economic policies aimed at boosting economic performance through aggressive monetary expansion and structural reforms.

These better outcomes led markets to question whether the stimulative policies put in place since the global financial crisis could be nearing their turning point. Such concerns were most apparent in the U.S., where the Federal Reserve began considering how and when to finish its programme of bond purchases. Bond markets found this combination of better growth and reduced policy support worrisome: yields across developed markets jumped in the summer, and global indices ended the year with small losses – the first negative total returns in 20 years.

Emerging markets proved especially sensitive to signs that monetary stimulus may have peaked. Low yields in the developed world had encouraged capital to flow to emerging economies in search of better returns; a reversal of these flows depressed currencies across the emerging world, especially in those countries that had large current account deficits. In addition, emerging economies generally delivered growth outcomes in line with or slightly below expectations. Even in China, which was able to maintain

economic growth around 8%, markets were unable to sustain upward momentum.

Outlook

Looking forward, trends that have emerged over recent years appear likely to continue: global economic growth will increasingly be sourced from emerging economies; the developed world will gradually repair the damage wrought by the financial crisis; and fears of a relapse into crisis will give way to an understanding of the likely contours of a new economic expansion.

Despite short-term setbacks, emerging markets, and particularly China, are likely to play a much greater role in this global growth cycle than ever before. For global investors, this of course raises the profile of economic management in these countries. China is in the midst of a historic shift in its economic governance that will likely result in a loosening of administrative controls and allow markets to play a larger role in allocating capital. This approach will allow China to consolidate its economic growth achievements and extend them into an increasingly modern and dynamic economy. The path may not be smooth, but the way is clear.

Beyond China, the emerging market world is becoming far more diverse, and less easy to classify. Meanwhile, the developed world remains critically important to global investors as it is still the primary source of high-quality, investable financial assets, and continues to set the agenda for economic policies and regulation. Developed economies have healed most of the acute wounds from the financial crisis, but the legacy of that event will remain with them for many years.



Three important areas of work still stand:

- Repairing the supply side of major economies: millions remain unemployed, with skills and confidence eroding while capital spending remains very weak, hindering the diffusion of new technologies.
- Building a new framework of financial regulation: the rules of the past were unable to prevent the financial crisis. New rules are now being written that focus on increasing capital in banks and building barriers between systemically important activities and proprietary trading. These issues are highly complex and investors must be prepared for the possibility of unintended consequences.
- Improving fiscal health: governments have made surprising progress in reducing their deficits. But levels of debt remain far higher than at any point in peacetime history. Slow growth and low inflation are tough obstacles to reducing debt/GDP ratios and it remains essential to prepare public finances for an inevitable future economic downturn.

Navigating a global asset portfolio through these cross-currents brings with it certain challenges. Our experience suggests that the formula for success will not be found in trying to predict future events or positioning ourselves to avoid the next crisis or bubble. Instead, as a long-term investor, our focus will remain on understanding the implications of the few major trends that are driving the global economy, and building balanced, diversified exposures that allow us to fulfil our mission of delivering consistent financial returns over time.

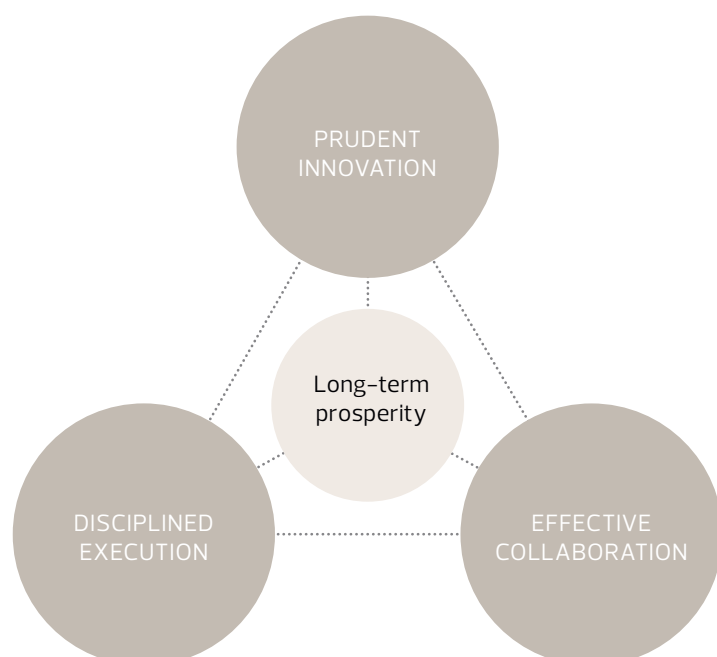
—
Hamed bin Zayed Al Nahyan
Managing Director

Our cultural values

ADIA's cultural values guide the way we work and the way decisions are made. They provide direction for how we think and behave as individuals and as a unified institution.

These values play a fundamental role in driving our people and the organisation forward to achieve long-term growth and business success.

The three ADIA cultural values that we encourage employees to demonstrate are:



Prudent Innovation



At ADIA, we encourage our people to be innovative. Our culture of prudent innovation encourages us to generate new ideas, continually improve our individual and department performance, and support ADIA-wide change initiatives. This means appropriately challenging the status quo and leveraging improvement opportunities. However, as a risk-sensitive business, it is vital that consideration of change is approached in a thoughtful manner so that all innovations are fully analysed, considered and reviewed to reduce possible risk. We are careful to consider both anticipated as well as unanticipated consequences for all innovations. Professional judgement should demonstrate caution and ensure a full awareness of the balance between opportunities and the risks involved in pursuing them.

With that intent, we recognise the importance of personal and professional development and encourage employees to drive their own and others' development while at ADIA. In addition to individual growth, ADIA is focused on organisational acceleration and ensuring the business is able to anticipate change and take advantage of market developments.

Effective Collaboration



ADIA places strong emphasis on collaboration and supports individuals to build relationships and networks, both internally and externally, that deliver results. We encourage individuals and teams to gather input from those with different knowledge and opinions, across departments and at all levels within the business. We acknowledge that identifying, importing, sharing and utilising best practices from all sources contributes to our present and future success. ADIA welcomes those who take responsibility for working together towards a shared purpose and are supportive of team objectives and decisions.

At ADIA, we encourage employees to communicate openly with each other as a means of building solid professional relationships. We value those who share opinions while also listening to the views of others, both within and across departments. This means getting involved in productive and positive debates where ideas and suggestions can be discussed in a constructive manner.


Disciplined Execution



ADIA has a long and successful history of disciplined execution. Individuals are encouraged to set and achieve high standards that are aligned to our strategic objectives. A central enabling feature of ADIA's mission is prudently growing capital through a disciplined investment process. ADIA's investment process has been carefully refined over the years. Employees are given responsibility for contributing to ADIA's investment success by putting in place realistic, clear and practical plans to ensure that expected results are achieved. We do so by holding ourselves and our teams accountable for delivering on their plans.

Effective delegation and the ability to drive projects to completion are essential to meeting objectives. We encourage individuals to demonstrate the necessary energy, drive and commitment to deliver results and maintain focus and integrity, irrespective of the inevitable difficulties or challenges that come their way.



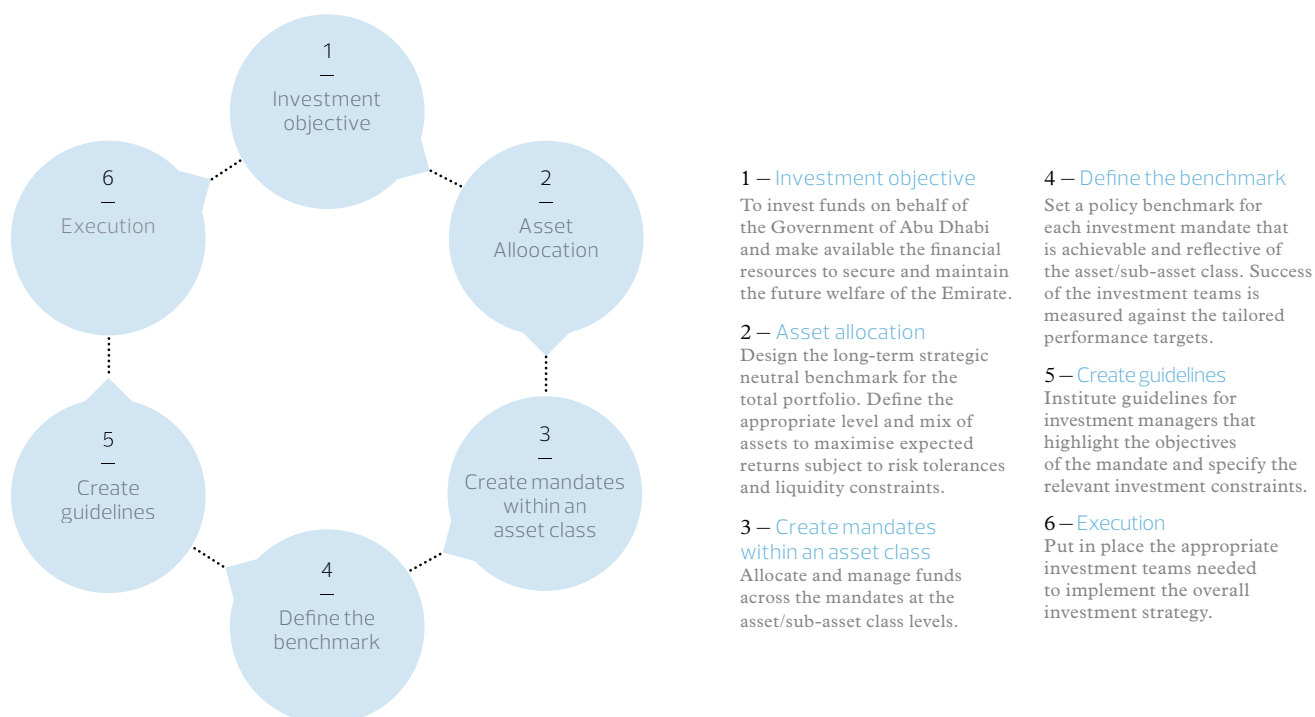


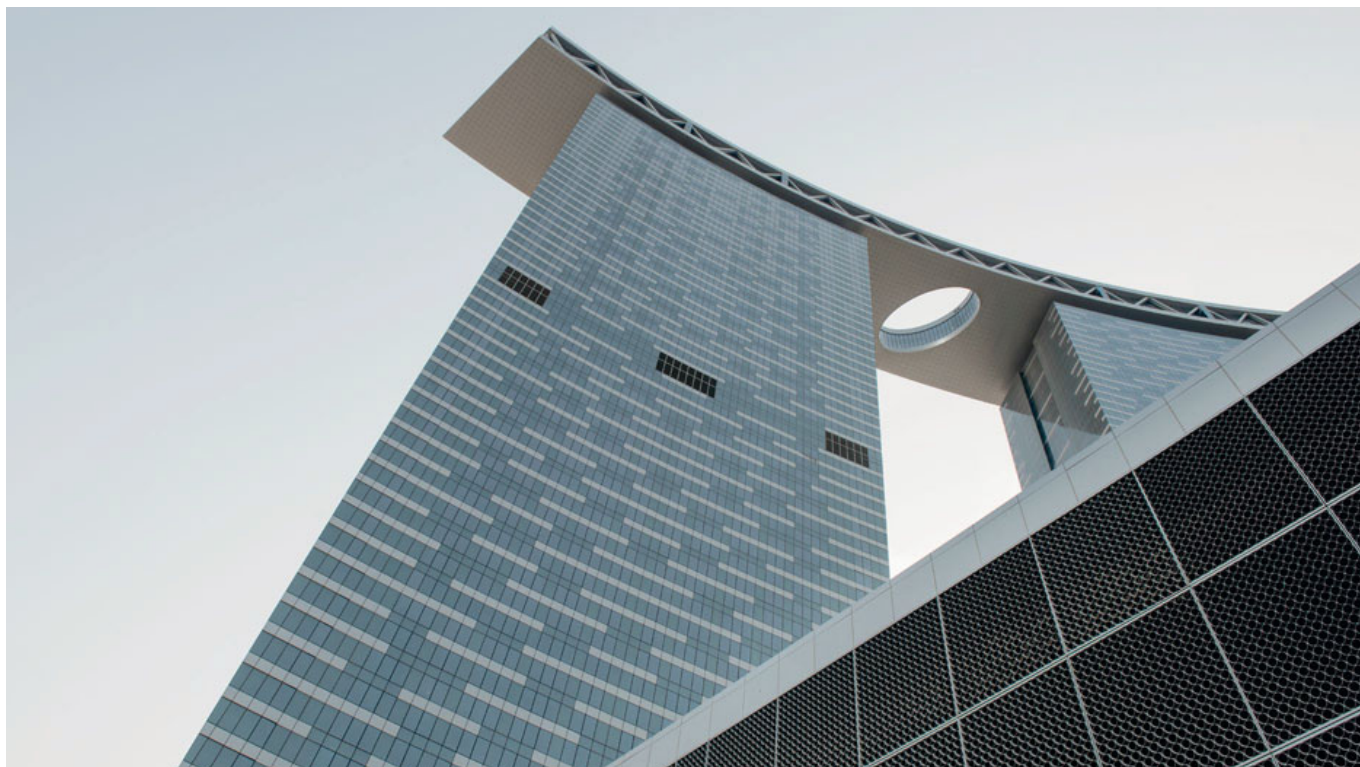
By making continuous enhancements, ADIA has built an investment strategy that is not simply based on asset-class or geographic allocations, but one that is both robust and increasingly focused on return drivers.

Investment strategy

ADIA has a disciplined investment process that aims to generate stable returns over the long term within established risk parameters.

Overview





The Strategy Unit plays a central role in the investment process, with responsibility for developing, maintaining and periodically reviewing ADIA's policy portfolio mix of over two dozen asset classes and sub-categories. It also identifies medium-term tactical opportunities for generating returns in excess of those achieved by the long-term policy portfolio while maintaining ADIA's target risk profile.

In accordance with ADIA's prudent governance structure, the Strategy Unit's recommendations are evaluated by the Strategy Committee, before being submitted to the Investment Committee and ultimately the Managing Director. Once approved, funds are allocated to the respective investment departments, which are responsible for implementation in line with their mandates, benchmarks and guidelines.

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 slightly over 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 in which

genuine potential to generate market outperformance, or alpha, can be achieved 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 and opportunistic where potential opportunities and trends arise.

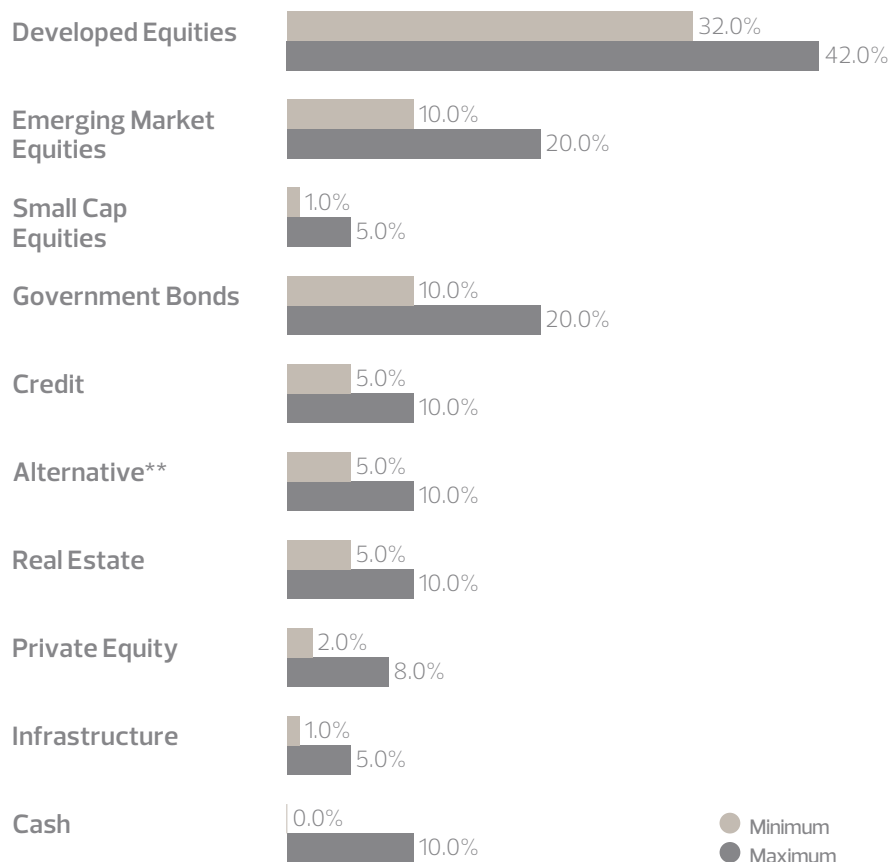
By making continuous enhancements, ADIA has built an investment strategy that is not simply based on asset-class or geographic allocations, but one that is both robust and increasingly focused on return drivers. This allows for a sophisticated approach that can be more granular in nature and provides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

Portfolio overview

ADIA manages a diversified global investment portfolio across more than two dozen asset classes and sub-categories. We invest directly in global financial markets, alongside trusted partners and through a vast network of carefully selected external managers.

By asset class

Long-term policy portfolio*



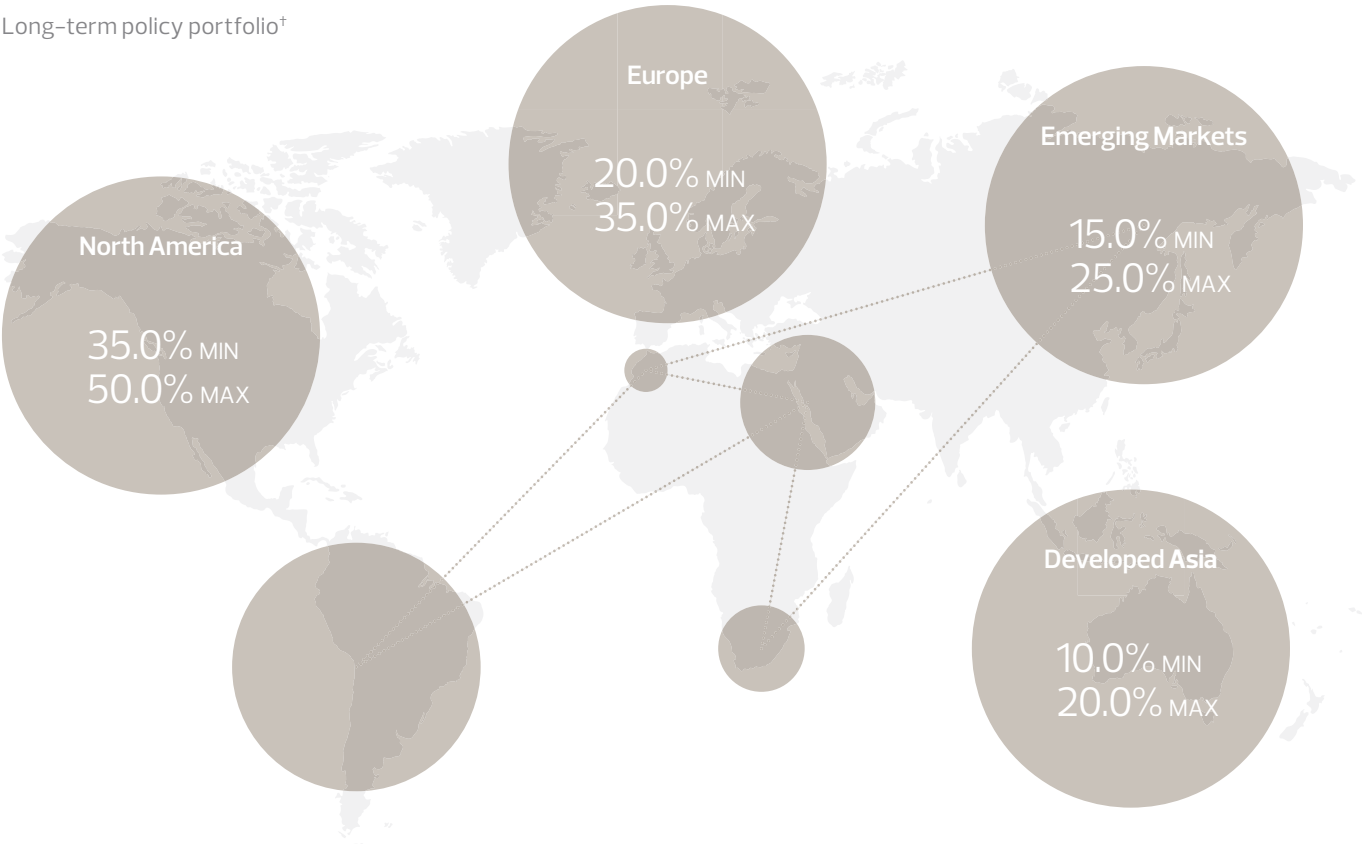
* The above denotes long-term policy portfolio ranges within which allocations can fluctuate; hence they do not total 100%.

** Alternative is comprised of hedge funds and managed futures.

● Minimum
● Maximum

By region

Long-term policy portfolio†



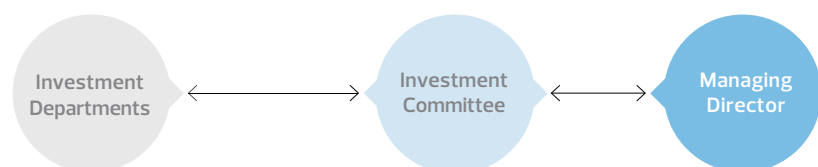
† ADIA, as a matter of practice, does not invest in the UAE.

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

Overview



Investment Departments

- Indexed Funds
- External Equities
- Internal Equities
- Real Estate & Infrastructure
- Fixed Income & Treasury
- Private Equities
- Alternative Investments



Investment activities *continued*

Equities



ADIA's equity investments are managed by three departments in ADIA through a combination of internal and external portfolios managed on an active and index-replicating basis.

Indexed Funds Department

The Indexed Funds Department manages the largest proportion of ADIA's equity allocation with the objective of achieving index-replicating returns.

Indexed Funds is made up of 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 subdivided into Developed and Emerging mandates and are subject to strict guidelines and close monitoring to ensure consistency and robust risk management.

Internal Equities Department

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

Internal Equities seeks to identify investment opportunities based on bottom-up fundamental research focusing on companies' structural value propositions.

Internal Equities manages multiple internal active portfolios that are organised by geography, sector and/or theme. It utilises a fundamentally driven, research-based, stock selection approach that seeks to generate alpha within predefined risk parameters. Each team is led by a portfolio manager, backed up 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 a single global equities pool consisting of multiple external managers, overseen by internal portfolio managers with regional specialisations and the objective of outperforming the benchmark within a predetermined set of investment guidelines.

The internal portfolio managers seek to identify the best managers in global markets to generate sustainable outperformance. External Equities 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

Despite some growth-related jitters early in the year, global equity markets were able to put in another strong performance last year, particularly in developed markets, building on the momentum of 2012.

The global recovery remained on track, although growth rates were subdued at best, resulting in continued low inflation and a need for supportive monetary policy in most major economies.

Core market equities, led by Japan, the U.S. and Europe, posted stellar returns, with the MSCI World Index posting an overall 23.4% rise in 2013, its best performance since 2009. This outcome was not entirely expected, with fundamentals initially pointing to bond market outperformance. Instead, however, bond markets sold off as long rates rose, triggered by hints from the Federal Reserve about a possible tapering in asset purchases.

Evidence of a U.S. housing-led recovery added further fuel to expectations that an end to Fed support for markets may be in sight. This had global repercussions, with emerging markets and especially countries with current account deficits experiencing sharp sell-offs in bond and currency markets, brought about by rising U.S. long rates. Equities in these markets also suffered, with the MSCI Emerging Markets Index posting a 2.3% drop for the year.

Other than facing an interest rate headwind, many emerging markets also experienced subdued demand from China as it underwent a leadership change that is expected to result in a rebalancing of Chinese growth away from investment and exports towards domestic consumption. This has resulted in a

transitional pause in growth and changing patterns of demand that are likely to persist.

Another major news event in 2013 was Japan's attempt to pull itself out of a decades-long slump through radical policy initiatives instigated by Prime Minister Shinzo Abe. These policies, termed "Abenomics", showed some early signs of success. A steep decline in the yen provided much-needed currency relief to exporters and an adrenalin boost to the Nikkei Index, which rose over 50% in local currency terms, and over 25% in U.S. dollars.

The strong equity returns seen in 2013, and shift in sentiment away from bond markets due to expectations that interest rates may normalise soon and even rise, has led to what appears to be the start of an allocation shift by global institutional investors from bonds to equities. If this continues, it will reverse an almost five-year trend of flows that will continue to support equity markets in 2014. As at year end, stock valuations remained within historical norms despite their strong gains. However, while the supportive monetary environment, coupled with benign growth and inflation, is likely to persist, we believe that robust earnings growth will also be needed if global equity markets are to post continued strong gains during the year ahead.

2013 was another active year for ADIA's equities departments. In Internal Equities, additional funds were allocated to its core European, Emerging Europe and South Africa, and Equity Opportunities portfolios. It was also an active year on the recruitment front, with a decision made to appoint ADIA's first Global Head of Internal Equities, with responsibility for overseeing all internally-managed

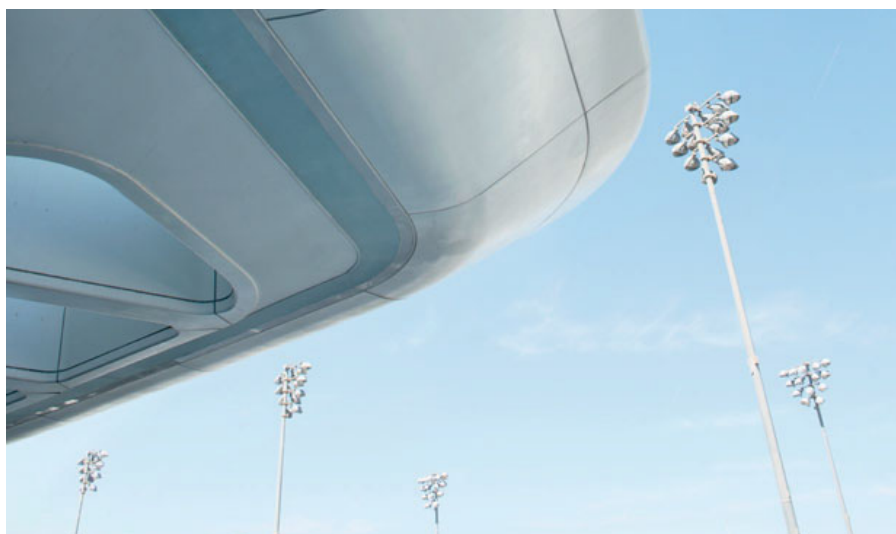
active equity portfolios. In addition, a new head of the Asia Ex Japan portfolio joined to lead the team and further hires are planned to help focus on the region's assets, while analysts and portfolio managers were added to the Japanese, Latin American, Regional Investment Holdings and Equity Opportunities teams.

Also in 2013, ADIA received approval from the Chinese market regulator to increase its allocation to Chinese A shares under the Qualified Foreign Institutional Investor scheme from \$500 million to \$1 billion.

In External Equities, meanwhile, the year was characterised by the continued implementation of the department's investment strategy. This included the appointment of several new managers during 2013 to whom External Equities assigned its highest level of conviction. During the year, we also made a number of important changes to our investment process. These included the development and implementation of a new "analyst note", which aims to consolidate our information on individual managers, and create a standardised approach to manager reviews that ensures consistency.

Investment activities *continued*

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.

In addition to money markets, 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. Its 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 has separate teams that manage funds both internally and through external managers, with a goal of maximising returns while adhering to strict investment guidelines. It also has a dedicated Treasury team, which monitors ADIA's liquidity needs and aims to preserve capital while ensuring access to daily and short-term liquidity. All are supported internally through 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

Signs that the Federal Reserve was contemplating an end to its purchases of U.S. Treasury and mortgage debt were the dominant driver of fixed income markets last year. Even though the Fed continued its purchases through year end, yields rose across global bond markets and broad market indexes recorded negative total returns for the first time since 1994.

So-called unconventional monetary policies have dominated global bond markets since the financial crisis, when major central banks reduced their official interest rates to near zero and needed new tools to provide additional stimulus to a disappointing economic recovery. Aggressive expansion of central bank balance sheets became the norm, and last year the Bank of Japan joined the trend when it announced in April that it would buy large quantities of Japanese Government bonds and other assets until deflation gave way to sustained inflation in line with the Bank's goal of 2%.

By mid-year, there were signs that these policies were beginning to bear fruit, with better economic growth across developed economies. However, concerns also grew that the purchase programmes were distorting capital markets and encouraging undue leverage and speculation. When Federal Reserve Chairman Bernanke indicated that the U.S. economy was becoming healthy enough for the Fed to begin winding down its purchases, U.S. Treasury yields jumped around 100 basis points in a matter of weeks.

The yield increases were maintained through the year, despite the fact that the Fed in the end postponed any reduction in its buying programme until the beginning of 2014.

Ten-year U.S. Treasury yields ended the year 100 basis points higher. U.K. Gilt yields moved up a similar amount, and German ten-year yields rose 50 basis points. Only Japan was insulated from the general rise in yields; Japanese Government bond yields ended 2013 slightly lower.

Emerging markets debt was particularly hard hit by the turn in Treasury yields. Record low yields in developed country bond markets had encouraged a global search for yield and prompted significant capital flows into emerging markets. These flows appeared to reverse in the second half of 2013. Indices of emerging market debt lost about 10% of their value at one point and finished the year down around 7.5%.

In contrast, credit markets took the change in Government bond yields relatively well, as the impact was cushioned by increasing confidence that economic conditions were improving. Lower quality debt in the U.S. and Europe did particularly well, with positive total returns of 5% or more for the year.

Peripheral sovereign debt in Europe also rebounded in 2013. A slow economic recovery began in Europe, and European Governments made significant progress in their efforts to improve economic coordination. An important element of this was agreement on the path to unified bank regulation in the Euro area, a necessary step to separate bank risk and sovereign risk in heavily indebted countries.

Despite the rise in interest rates last year, global Government bond markets still offer historically low yields of around 2.5%. The outlook for bonds is clouded by the unprecedented nature of current

monetary policies. Nonetheless, returns for fixed income over the coming few years cannot be much better than current low yields.

Among key developments in 2013, Fixed Income & Treasury executed on its strategy of hiring investment professionals to enhance capabilities across all teams. Among them a notable addition was the appointment of Head of Internal Fixed Income to support the management of fixed income assets internally. In addition, the implementation of the new fixed income portfolio management system is currently under way, having gone through an extensive selection and approval process last year. Alongside portfolio management, the new system will further enhance Fixed Income & Treasury's decision-making capabilities through an integrated risk management and performance attribution tool.

On the investment front, meanwhile, changes implemented during the year included expanding the investment universe within the guidelines across various mandates to enhance alpha opportunities in a risk-controlled manner. There was also a focus on exploiting opportunities in the stressed credit space as banks across Europe deleverage. Over time, the department has additionally made a conscious effort to move its 'plain vanilla' replication strategies to be managed internally.

Investment activities *continued*

Alternative Investments



“The department’s leadership team executed on its strategy of hiring skilled market professionals to enhance our capabilities across the full range of alternative strategies.”

The mandate of the Alternative Investments Department is to invest in liquid, non-traditional funds which employ strategies that seek to diversify and enhance risk-adjusted returns of ADIA's overall portfolio. The department's three investment mandates focus on hedge funds, commodity trading advisers (CTAs) and active commodities. Portfolio managers and analysts within Alternative Investments are responsible for identifying, vetting and engaging investment managers who can best fulfil the department's mandates, and continuously evaluating their performance and portfolio fit.

CTAs execute systematic strategies that employ a wide range of quantitative techniques to trade equities, commodities, fixed income and currency markets worldwide. These highly liquid strategies often perform best when traditional assets underperform, making them an attractive means of diversification.

Hedge funds employ strategies that are mainly driven by discretionary investment themes, take both long and short positions and employ varying degrees of leverage. The department's hedge fund mandate invests across discretionary macro, relative value, event and equity hedge strategies. The active commodities mandate, meanwhile, invests in a variety of commodity-related strategies, with the objective of capturing excess returns from the commodities market without a sustained directional bias. This portfolio includes both generalist and specialist strategies focused on market direction and relative value.

Review of the year

For alternative investments, as with other asset classes, 2013 was a year characterised by an uncertain macroeconomic backdrop worldwide but with generally fewer concerns that policies or political events in Europe, the U.S. and China could derail a fragile global economic recovery.

The unfolding of "Abenomics" early in the year brought the yen and Japanese equities firmly into the sights and portfolios of the hedge fund community, and provided supportive market conditions for all alternative strategies during the first third of the year.

In late May, meanwhile, news that the Federal Reserve was considering "tapering" its quantitative easing programme caused a sharp reversal in the correlation between stocks and bonds, disrupted carry trades and prompted severe fallout in emerging market currencies and securities. However, equity markets quickly regained their footing as the Fed moderated its stance over the summer and formally deferred tapering shortly afterwards. This allowed the dual themes of falling volatility and increased dispersion among, and within, asset classes to dominate the second half, with equity markets in particular performing strongly worldwide. For ADIA's mandates and managers in the alternatives space, this resulted in strong returns in equity-linked strategies for the year and more subdued returns from the strategies impacted by the disruptions in May and June.

In managed futures, the investment environment in 2013 was once again a challenge for most trend-following CTAs, which absorbed their third consecutive year of negative returns. In the broad range of markets traded by CTAs, clear

price trends rarely emerged and, when they did, often reversed more quickly than the norm. Trends in developed world equities were strong but profits achieved in this area were largely offset by weakness in other asset classes. The best performing managers in this segment were the managers focused on very long or short trends. Macro-systematic strategies, including global tactical asset allocation, performed better than trend-followers as such strategies generally do well in falling volatility environments and when dispersion increases. However, ADIA's best performing managers were those who had developed a number of non-trend strategies based on their strong research and risk processes. These managers, together with others employing high-quality quantitative trading strategies, demonstrated their ability to manoeuvre in the current market environment and remain attractive to institutional investors.

In ADIA's hedge fund portfolio, the very strong performance of 2013 was the result of good balance, and excellent manager selection, in a portfolio designed to take advantage of diverse market conditions. Relative value and macro strategies were mixed as some benefited from the May disruption while others struggled with the many changes that resulted in lower risk-taking for the remainder of the year. However, equity event and equity hedge were very strong performers in line with their underlying markets and due to their alpha-generating abilities around stock dispersion and corporate events. In our performance attribution framework, it was the individual excellence and skill of our managers within their core areas of expertise that drove performance throughout the year. As market conditions continue to normalise, we

remain very positive about the unique and strategic role that hedge funds play in ADIA's overall portfolio.

Commodity markets experienced significant moves during the year, led by declines in precious metals, agricultural commodities and base metals. For most managers, the market environment proved difficult to navigate in 2013; a trend that we expect will continue until stronger and broader world growth emerges. In the interim, the Alternative Investments Department will continue to move the portfolio toward managers with in-depth research, deep knowledge of underlying markets and the high level of trading skill necessary to trade the commodity markets successfully.

Against a mixed backdrop for our various mandates, Alternative Investments was able to achieve its overall target in 2013, due to diligent work by the investment team and the department's access to the highest quality managers in the industry.

Among key developments in 2013, the department had a busy year in which the people hired and processes established in 2012 were utilised to better align our mandates with their strategic purpose in ADIA's portfolio. The investment, operations and risk teams were stable and performed well under sustained press of business. The plan for 2014 is to continue to improve our processes, and data systems to support them, and selectively hire within our operations and risk teams to fill remaining gaps. While confident that 2014 will be a year of further growth for Alternative Investments, our mission and key objective will continue to be consistently adding value to ADIA's portfolio while building good long-term relationships with our managers.

Investment activities *continued*

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.

“Identifying, pricing and managing risk is paramount in our investment approach.”

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 our 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 closely monitored by ADIA's in-house team. It employs a flexible strategy that allows for investing across a variety of real estate asset types and also at various entry points in the capital structure. A Finance team supports the investment managers and is responsible for structuring and executing investments, budgeting and producing performance reports and other analyses that assist the investment team in developing its long-term, global view of the market.

In Infrastructure, the core focus is on assets with strong market-leading positions and relatively stable cash flows, including utilities such as water, gas and electricity distribution and transmission companies, as well as transport infrastructure, such as toll roads, ports, airports and freight railroads. Our primary strategy is to acquire minority equity stakes alongside proven partners, with an emphasis on developed markets but also an increasing focus on emerging markets. We do not seek to control or operate the infrastructure assets in which we invest.



Review of the year

In real estate, the investment landscape continued to evolve positively in 2013. As the ongoing gradual recovery in the global economy grew less fragile throughout the year, investor confidence and appetite for risk improved overall, even as regional preferences shifted. The improvement in investor sentiment was readily apparent in the increased liquidity of the commercial property markets, most notably in Europe. Transaction activity continued to broaden from the narrow focus in recent years on prime assets in gateway cities.

Among developed markets, the property market cycle is most advanced and liquidity is deepest in the U.S. Following further gains in 2013, property values at the institutional end of the quality spectrum have more or less fully recovered from the steep declines following the global financial crisis. ADIA's Real Estate team was successful in finding attractive opportunities to deploy capital and take advantage of the improved liquidity to sell assets that no longer fit the portfolio strategy. The Americas team also continued to broaden its scope toward opportunities in developing countries such as Brazil and Mexico.

In Europe, there was growing evidence that the economies of the troubled peripheral countries were beginning to stabilise, and investors took notice. ADIA's Real Estate team has been active in Europe for the past two years, investing across a wide range of markets and property types. While competition from other investors is likely to increase as parallels are drawn between conditions in Europe and those seen in the U.S. in 2010, ADIA's priority will remain on identifying creative ways to access attractively priced, quality assets in both core and periphery countries.

Capital flows into Asian real estate markets eased during 2013, perhaps in response to concerns about slower growth in China and its impact on other economies in the region. The most notable exception to this trend was Japan, where bold monetary policy initiatives attracted a wave of investment capital. Elsewhere in Asia, the pause in activity allowed ADIA to remain active, particularly in China and Australia. In China, the focus remains on opportunities to develop institutional quality assets, while in Australia ADIA put capital to work in the retail and hospitality sectors and sought to create value from the existing portfolio through active management.

The build-out of the Real Estate team over recent years has positioned ADIA to be an active investor in the debt and equity space across a wide range of markets and property types. While there is more work to be done before the department is fully staffed, the major components of the platform are largely in place, giving ADIA deep capabilities to invest globally across a diverse opportunity set and, more importantly, to actively manage owned assets, investment managers and its portfolio as a whole.

On the infrastructure side, one of the more noticeable trends in 2013 was the increased intervention from governments in the operation of regulatory regimes in developed markets, which had in most cases been considered to be relatively stable and predictable. To the extent that regulatory uncertainty around the world continues, some upward pressure on returns from this category of investment might be expected. On the supply side, infrastructure opportunities originated from both the private and public sectors.

This included a continuation of the trend to privatise landlord ports in Australia, plus a range of minority stakes being transacted in unlisted markets in the U.K. and elsewhere, as well as funding being committed to new large greenfield developments in the U.S. and other higher growth countries. The level of competition for assets also markedly increased from 2012 levels.

For its part, the Infrastructure team continued its focus on investing in large-scale, core infrastructure assets in developed markets alongside strong partners. With our flexible mandate, we also have the ability to make minority investments in publicly listed companies that we deem attractive over the long term based on a range of criteria including asset quality and valuation.

2013 was another active year for Infrastructure, with a number of new investments being made. Among these, an ADIA subsidiary was part of a consortium that agreed to acquire Port Botany and Port Kembla – two landlord ports located in New South Wales, Australia. In addition to these investments, the Infrastructure team also took advantage of favourable market conditions to rebalance part of its portfolio, including the divestment of its stake in Sydney Airport.

With the appointment of a new Global Head of Infrastructure during 2013, the team undertook a review of its investment strategy and organisational structure to enhance its ability to access a broader range of products and markets. Our plan in 2014 will be to selectively grow the size of the team to support our growing portfolio and our evolving strategy, while enhancing our asset management and risk management capabilities.

Investment activities *continued*

Private Equities



“The Private Equities Department had an active year in 2013, reviewing a wide range of investment opportunities across primary, secondary and co-investments.”

The Private Equities Department is responsible for investing in private equity globally through externally managed funds and through investments in private companies, typically alongside our external partners.

We began investing in private equity as early as 1989 to diversify ADIA's portfolio and to seek risk-adjusted returns that exceed those possible in the public equity markets.

Private Equities has three investing activities: primary fund investing, direct secondary investing, and principal investing. The primary funds activity is organised geographically across North America, Europe and Emerging Markets, investing across all strategies, while secondary, principal investing, credit and distressed, and venture capital activities operate on a global platform. The result is a portfolio that is diversified by geography, industry, stage, size and time frame. Performance is closely monitored and measured against both medium – and long-term benchmarks.

Review of the year

Global private equity activity increased in 2013, largely driven by the continued availability of debt in North America as well as positive signs of recovery from Europe and sustained growth across the Asia Pacific region. However, excluding a small number of so-called “mega” buyout deals, industry volumes remained relatively flat during 2013 compared with the previous year, with different dynamics by region.

Favourable financing terms and the need to deploy existing cash piles contributed to the return of mega buyout transactions in the U.S., while Europe saw a mild uplift in volumes, supported by a more stable macro economic environment in the region. Meanwhile, private equity volumes continued to increase in Emerging Markets, with quarterly deal activity stabilising around the \$5 billion mark. More broadly, accommodating debt markets allowed investors to pay more for assets, particularly in the U.S., pushing average purchase multiples higher than during previous post-crisis recovery periods.

The availability of undrawn private equity capital remains at an all time high and is currently estimated at close to \$1.0 trillion, which equates to approximately five years of deal-making activity at the current pace of investing.

Full exit activity slowed in value during 2013, with strategic buyers remaining the preferred exit route and secondary buyouts quite often seen in the market. IPOs continued to be sporadic in Europe and the U.S., but remained an alternative for some private equity-backed companies in emerging markets with strong growth stories. As was also seen the previous year, dividend recapitalisation and refinancing activity were robust in 2013, particularly in the U.S. and Western Europe, providing private equity firms with liquidity for distributions to investors.

The Private Equities Department had a busy year in 2013, reviewing a wide range of investment opportunities across primary, secondary and co-investments. Focus remained on engaging earlier in the execution of negotiated co-investments with external managers and companies, with an active role in setting valuation and terms of transactions. Private Equities also continued to seek opportunities in the venture capital space through a collaboration agreement signed in 2012 with Alberta Investment Management Co (AIMCo) and the New Zealand Superannuation Fund. This “Innovation Alliance”, as it is known, considers opportunities that are brought to its attention by leading General Partners (GPs) in which they are already substantial investors. While it has a broad mandate, the Alliance is focused primarily on high growth companies with proven business models that are seeking expansion capital.

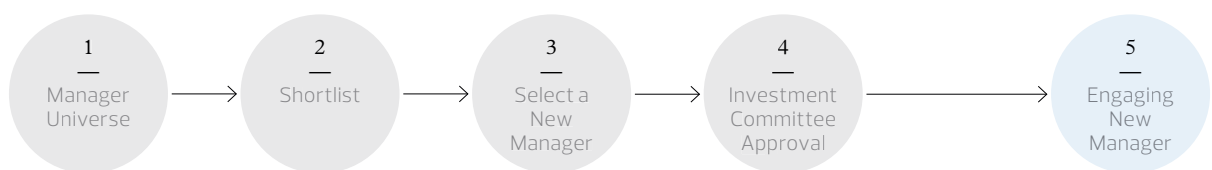
The Innovation Alliance was created as a result of dialogue about shared interests at the Institutional Investors Roundtable (IIR), of which ADIA, AIMCo and NZ Super Fund are among the members. While independent of the IIR, the Innovation Alliance shares a similar goal of bringing large institutional investors into direct contact with private institutions seeking to raise capital.

Meanwhile, Private Equities' human resource expansion continued selectively in 2013 with the addition of mid-level professionals across all of its investing activities and particularly in the secondary and principal investments teams. Private Equities also expanded the team supporting the offices of its Chief Financial Officer and Chief Risk Officer. The department's resource expansion will continue, selectively, in 2014.

Selection of external managers

In addition to our internal investment teams, we recognise that external managers often bring unique 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.

Manager selection process



1 — Manager Universe

- Knowledge and experience of the industry
- Manager reputation
- Database

2 — Shortlist

- Analyse performance and attribution
- Request for proposal (RFP)
- Analyse style and portfolio
- Analyse investment philosophy and process
- Analyse organisation and team structure

4 — Investment Committee Approval

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

5 — Engaging New Manager

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

In total, around 75% of ADIA's assets are managed externally in areas including equities, fixed income, money markets, real estate, private equities and alternative investments. We engage managers across the risk spectrum, from index-replicating to actively managed mandates, in most cases through the use of "segregated accounts" that allow us to tailor each fund 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 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. We begin by creating a long list of potential managers in any given asset class and strategy, sourced from extensive internal databases. We then analyse these managers on the basis of ADIA's "Four Ps Framework":

- Philosophy
- Process
- People
- Performance

This process involves discussions and face-to-face meetings with managers before we create a shortlist, allowing us to build a well-rounded understanding of their backgrounds and potential to deliver sustainable outperformance against their mandates.

Our due diligence teams then gather and analyse relevant data to back up their qualitative views on the attributes of each manager. In this way, we set clear expectations of the behaviours of each external manager and are able to put their performance in context against differing market conditions.

ADIA has developed robust systems and processes over many years that require our external managers to remain compliant with their 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, on-site and in their offices. These 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.

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.

ADIA Departments

Accounts Department

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Central Dealing Department

Read more on page 35

General Services Department

- Contracts, Supply, Housing
- Protocol, Employee Services
- Facilities Management

Read more on page 35

Human Resources Department

- Recruitment
- Talent Management and Development
- Scholarships
- Performance and Reward
- Organisation Development

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Corporate Communications & Public Affairs

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Internal Audit Department

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Managing Director’s Office Evaluation & Follow-Up Division Legal Division

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Information Technology Department

- Infrastructure Management
- Application Management

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Investment Services Department

- Risk Management
- Data & Information Management
- Project Management Office

Read more on page 37

Operations Department

Read more on page 37

Accounts Department

Accounts contributes to the safeguarding of ADIA's assets by maintaining ADIA's accounting books and records, preparing its consolidated financial statements under International Financial Reporting Standards (IFRS) and by providing financial analyses to ADIA's management.

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 other related derivatives on behalf of ADIA's internal investment departments.

Central Dealing fulfils its mission by seeking to ensure that performance is not diluted from investment decisions during the implementation process. Instead, it seeks to add value through skilful execution and by offering advice on market securities and transition trading. The department's experienced team makes use of technically advanced electronic trading systems and processes, which are employed within a stringent, clear and transparent compliance and risk framework. Its approach ensures that Central Dealing is able to execute its activities professionally, with due care and with minimal operational risk, thereby maintaining ADIA's reputation as a professionally respected and trusted counterpart.

General Services Department

General Services is responsible for providing a wide range of services and support for ADIA and its employees. The department liaises with Government entities, local authorities, vendors and other external parties to ensure that the organisation's daily and operational needs are met.

General Services comprises three divisions:

- Contracts, Supply and Housing, which manages contracts with vendors and procurement of orders, and provides accommodation services for all employees;
- Protocol and Employee Services, which interacts on behalf of ADIA and its employees with local authorities and foreign embassies and provides support in various areas including visas and immigration, travel arrangements, vehicle servicing and registration, among other things; and
- Facilities Management, which manages and oversees ADIA's buildings, security services, archives of department files and the maintenance and operation of all ADIA facilities.

Human Resources Department

The mission of Human Resources is to build and sustain a performance-driven culture that supports ADIA's strategic and investment goals.

The department is divided into a number of key sections:

- The Recruitment team is responsible for identifying and hiring top talent from the UAE and around the world;
- Talent Management and Development provides training and development opportunities to ensure that employees continue to grow and meet their full potential;
- the Scholarships team aims to identify, recruit and provide ongoing support to UAE Nationals with the potential to become ADIA's next generation of leaders;
- the Performance and Reward team ensures that employees' pay and rewards are closely aligned with their performance and contribution, and competitive with our global peers; and
- Organisation Development specialists manage change initiatives that ensure departments are correctly structured and aligned to support ADIA's mission and continued success.

These areas, along with a number of other functions, combine to enable Human Resources to offer an integrated service, promoting efficiency throughout the organisation and ensuring that ADIA continues to attract, develop and retain world-class talent.

Corporate Communications & Public Affairs

Corporate Communications & Public Affairs is responsible for protecting and promoting ADIA's reputation, improving understanding of ADIA and its activities, managing the ADIA brand, providing strategic and tactical advice to departments on significant issues, and helping to bring lasting positive change to ADIA.

Internal Audit Department

Internal Audit assists senior management in its oversight, management and operating responsibilities, by providing internal audits and consultations. The overall goal is to ensure that ADIA's assets are safeguarded. The department reports functionally to the Audit Committee and administratively 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.

ADIA's Board of Directors has established an Audit Committee, which appoints two external audit firms to act jointly to audit ADIA's annual accounts, as prepared by ADIA's Accounts Department. Both Internal Audit and ADIA's external auditors report their findings to the Audit Committee.

Investment support *continued*



Managing Director's Office Evaluation & Follow-Up Division

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

Evaluation & Follow-Up provides independent analyses and recommendations on all investment and asset allocation proposals generated by ADIA's investment departments and 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, as well as the impact of its asset allocation decisions and attribution analysis findings. Evaluation & Follow-Up's role also involves reviewing and providing recommendations on ADIA-wide strategic, research, 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.

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. Quality assurance and service delivery professionals ensure that the department provides a first-class service to internal partners while its business analysts and project managers are responsible for developing functionality to support ADIA's business.

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 ensure that the department chooses, implements and maintains best-in-class financial applications to support ADIA's short- and long-term goals. Information Technology has a professional, customer-focused approach with an emphasis on continuously improving its service to ADIA's employees.

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 sections: Risk Management, Data & Information Management, and the Project Management Office.

- Risk Management leads the development and implementation of the ADIA-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, Compliance independently reviews, monitors and provides guidance to relevant stakeholders on ADIA's investment activities and related internal rules and guidelines. Business Continuity Management, meanwhile, works closely with all ADIA departments to operate a best practice Business Continuity programme, to enable ADIA to continue critical business processes in the event of any significant business disruptions;
- Data & Information Management ensures the delivery of timely, accurate data and information across all asset classes, and provides detailed investment performance reports to key stakeholders; and

- 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 has the responsibility to protect ADIA's assets and interests by providing effective and efficient investment support. The department covers the following key asset safety and processing areas: global custody, trade settlement and cash management, trade capture, and corporate actions.

The department continuously evolves its straight-through processing solution to maximise efficiency while managing operational risk. It also mitigates risk and generates incremental revenue through efficient cash management and earns revenue through activities such as securities lending and by overseeing ADIA's involvement in class-action recoveries.

Operations supports ADIA's global investment mandate by maintaining strong technical knowledge of global financial markets and staying up to date with relevant settlement, regulatory and tax requirements.

Risk management

At ADIA, we believe that managing risk is a core responsibility of every investment professional. 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.



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 every investment professional. 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 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:

- a. Continuously assessing all sources of risk on both an absolute and a relative basis, including through proprietary portfolio modelling;
- b. Developing a comprehensive risk assessment across all risk types, including "top-down" aggregate portfolio risk, "bottom-up" investment risk by asset class, credit and counterparty risk, operational risk, operational due diligence, business continuity and compliance risk; and
- c. Identifying, monitoring and escalating risk mitigation strategies to address emerging and ongoing risk issues on a timely basis.

In addition, and to ensure connectivity with Investment Services, 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 situated within investment departments, the Operations Department and Investment Services' centralised risk management function – 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 HR Training and Development. 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.



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

Relationship with the Government of Abu Dhabi

ADIA is a public institution established by the Government of the Emirate of Abu Dhabi in 1976 as an independent investment institution.

ADIA carries out its investment programme independently and without reference to the Government of Abu Dhabi.



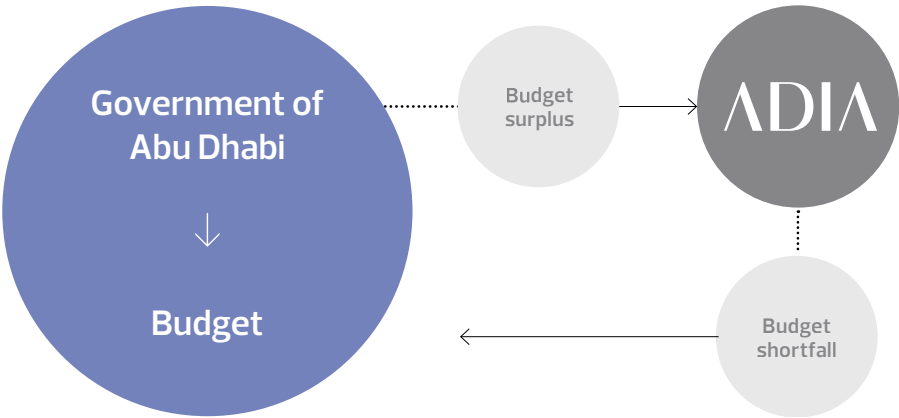
ADIA has no visibility on either the spending requirements of the Government of Abu Dhabi or the activities of other Abu Dhabi entities established by the Government to make investments. ADIA's assets are not classified as international reserves.

Source of funds and approach to withdrawals

Under the UAE Constitution, the natural resources and wealth of the Emirate of Abu Dhabi are the public property of Abu Dhabi. The Government of the Emirate of Abu Dhabi provides ADIA with funds that are surplus to its budgetary requirements and its other funding commitments.

ADIA is required to make available to the Government of the Emirate of Abu Dhabi, as needed, the financial resources to secure and maintain the future welfare of the Emirate. In practice, such withdrawals have occurred infrequently and usually during periods of extreme or prolonged weakness in commodity prices. We manage the funds entrusted to us in such a way as to ensure there is a sufficient level of short-term liquidity to meet any anticipated funding requests from the Government.

Source of funds from the Government of Abu Dhabi



Governance

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

ADIA's Board of Directors comprises a Chairman and Board members who are appointed by a decree of the Ruler of the Emirate. The Board has primary responsibility for the discharge of ADIA's business and meets periodically for the establishment and review of ADIA's overall strategy, but does not involve itself in investment or operational decisions.

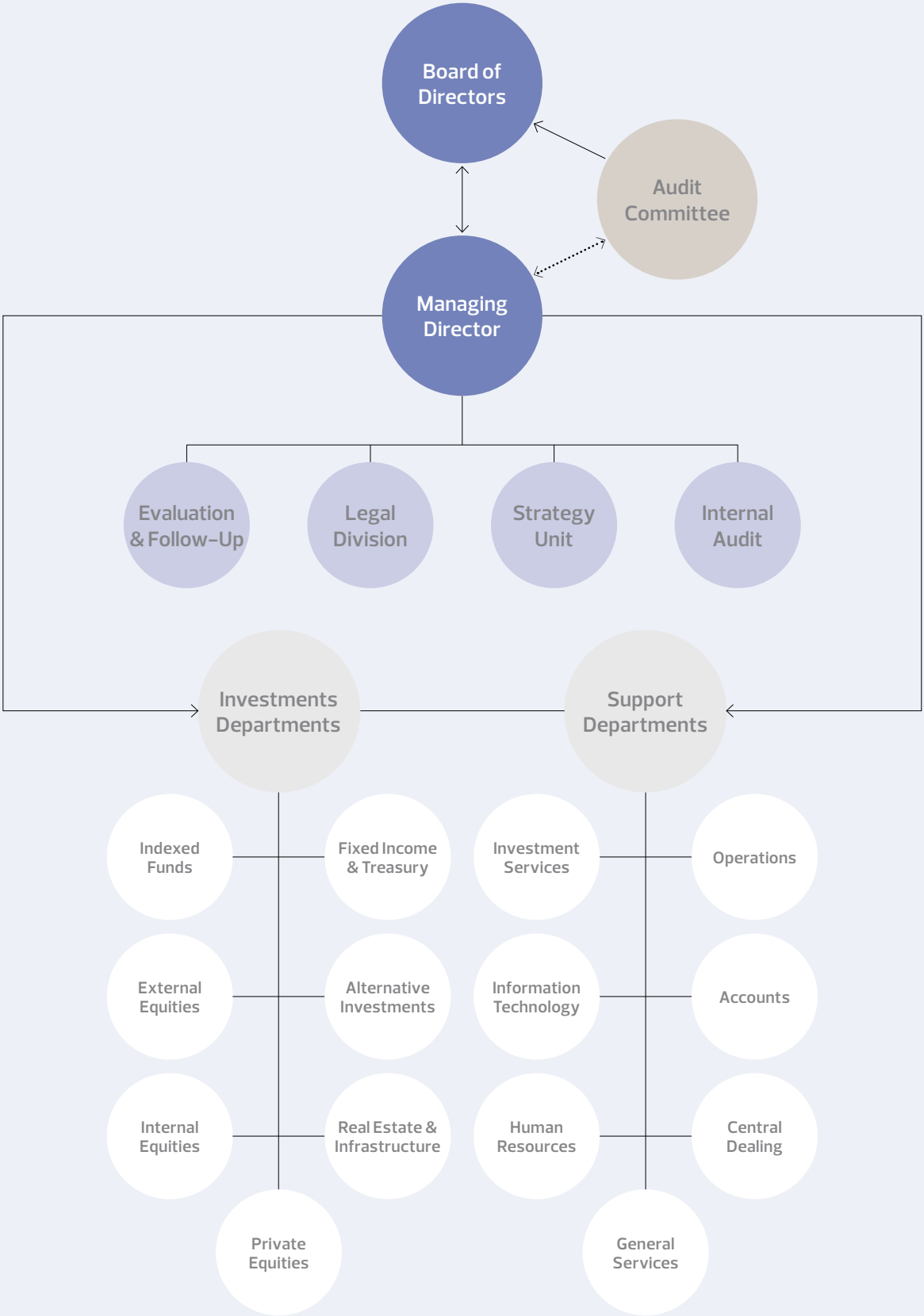
ADIA's Managing Director has sole responsibility for the implementation of ADIA's strategy including all decisions related to investments. The Managing Director, or those to whom he delegates, acts as ADIA's legal representative in dealings with third parties.

A number of key investment and non-investment committees support the governance framework:

The Audit Committee reports to the Board and is responsible for:

- Reviewing reports from ADIA's external auditors and the Internal Audit Department;
- Overseeing ADIA's financial reporting, systems of internal control and internal audit processes;
- Making recommendations concerning the appointment and re-appointment of the external auditors; and
- Managing ADIA's relationship with its external auditors who audit ADIA's annual financial statements, which are prepared in accordance with International Financial Reporting Standards.

Structure



Governance *continued*

The Investment Committee reports to the Managing Director and is responsible for managing and overseeing investment-related matters. The Managing Director chairs this committee, assisted by two deputy chairmen, with the participation of Executive Directors from all investment groups and some control functions. Investment decisions are based solely on economic objectives in order to deliver sustained long-term financial returns.

The Risk Management Committee — is responsible for implementing ADIA's risk management framework and ensuring that all identified risks are acted upon in a timely manner. It is comprised of members of the Investment Committee and reports to the Managing Director.

The Strategy Committee — advises the Investment Committee on ADIA's overall investment strategy and the composition of ADIA's long-term policy portfolio.

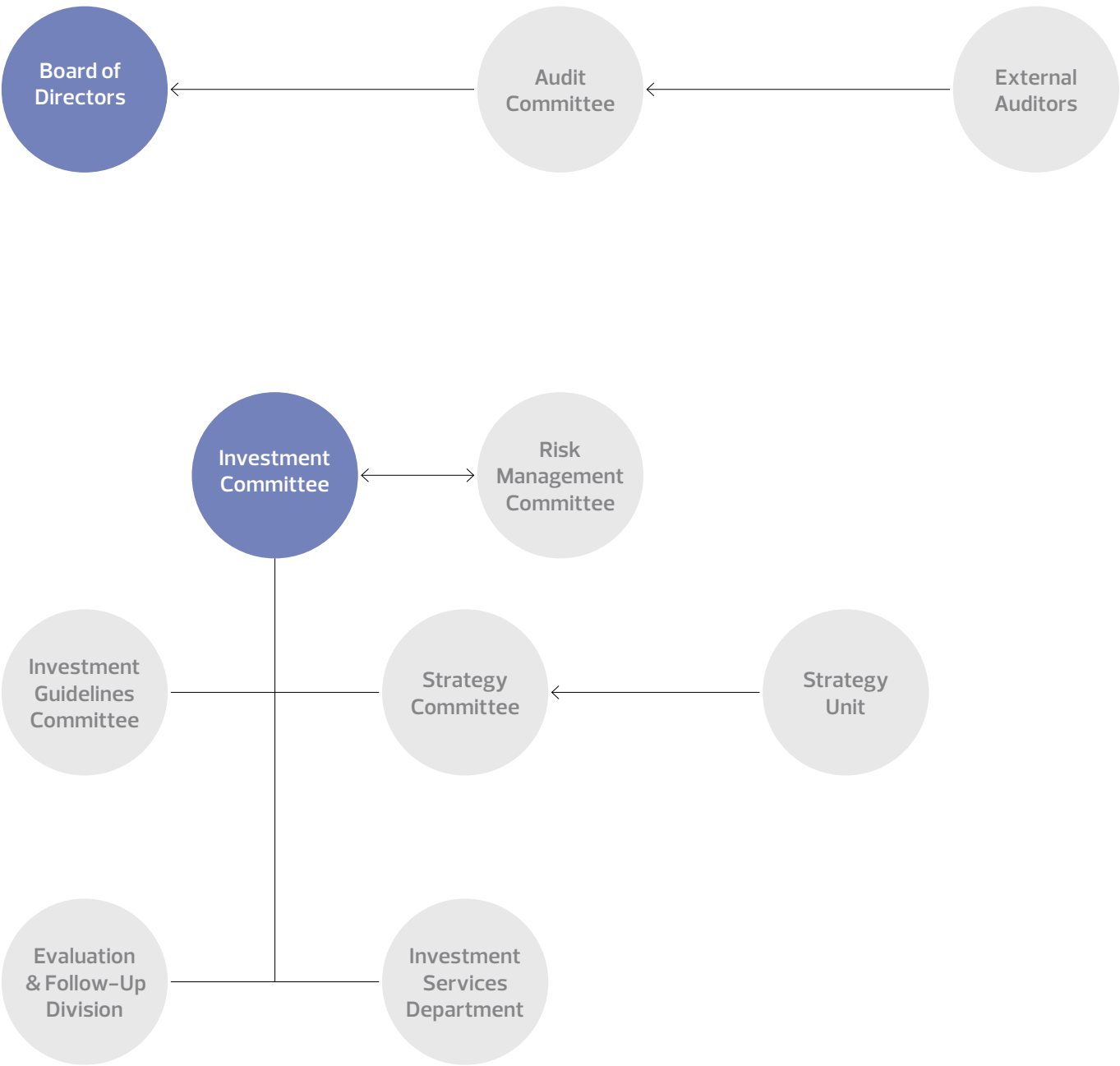
The Investment Guidelines Committee — advises the Investment Committee on investment guidelines for investment departments.

The Management Committee — reports to the Managing Director and is responsible for managing and overseeing non-investment related matters.

Investment governance: Voting and shareholder disclosures, Know Your Customer

ADIA does not actively seek to manage or take an operational role in the public companies in which it invests. As a shareholder, ADIA exercises its voting rights in certain circumstances to protect its interests or to oppose motions that may be detrimental to shareholders as a body. ADIA seeks to apply best practices to all of its disclosure processes and regularly makes disclosures, as required, in relation to its investments in global equity markets. ADIA is also mindful of its counterparties' obligations with respect to "Know Your Customer" and strives to provide all necessary disclosures to enable them to fulfil those obligations.

Governance framework



Board of Directors



01 — H. H. Sheikh Khalifa bin Zayed Al Nahyan
Chairman



02 — H.H. Sheikh Mohammed bin Zayed Al Nahyan



-
- 03 — H.H. Sheikh Sultan bin Zayed Al Nahyan
04 — H.H. Sheikh Mansour bin Zayed Al Nahyan
05 — H.H. Sheikh Hamed bin Zayed Al Nahyan
Managing Director
06 — H.H. Sheikh Mohammed bin Khalifa bin
Zayed Al Nahyan
07 — H.E. Mohammed Habroush Al Suwaidi
08 — H.E. Hamad Mohammed Al Hurr Al Suwaidi
09 — H.E. Khalil Mohammed Sharif Foulathi

Investment Committee



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- 01 — **H.H. Sheikh Hamed bin Zayed Al Nahyan**
Board Member, Managing Director (Chairman)
- 02 — **H.H. Sheikh Mohammed bin Khalifa bin Zayed Al Nahyan**
Board Member, Executive Director, Indexed Funds
- 03 — **H.E. Khalil Mohammed Sharif Foulathi**
Board Member (Senior Deputy Chairman)
- 04 — **H.E. Hamad Mohammed Al Hurr Al Suwaidi**
Board Member
- 05 — **H.E. Hareb Masood Hamad Rashed Aldarmaki**
Executive Director, Private Equities
(Deputy Chairman)



- 06 — **Juma Khamis Mugheer Jaber Alkhyeli**
Executive Director, Investment Services
- 07 — **Majed Salem Khalifa Rashed Alromaithi**
Executive Director, Real Estate & Infrastructure
- 08 — **Obaid Murad Hassan Abdulla Alsuwaidi**
Executive Director, External Equities
- 09 — **Nasser Shotait Salem Rashed Al Ketbi**
Executive Director, Fixed Income & Treasury

- 10 — **Mohamed Darwish Mohamed Husain Alkhoori**
Executive Director, Internal Equities
- 11 — **Salem Mohamed Helal Rashed Almazrouei**
Executive Director, Accounts
- 12 — **Khalifa Matar Khalifa Qaroona Almheiri**
Executive Director, Alternative Investments



Our goal is to attract, develop and retain world-class talent and provide the resources for our people to realise their full potential.

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Overview

ADIA's people are as diverse and international as our business, with over 60 nationalities combining to create a highly collaborative work environment that embodies our cultural values.

Our goal is to attract, develop and retain world-class talent and provide the resources for our people to realise their full potential. We achieve this by investing significantly in employees' development, training and career progression, combined with highly competitive market-based compensation and benefits. ADIA seeks to create a fully rounded work environment where committed people can build rewarding careers while contributing to ADIA's continued long-term success.

We place a particular emphasis on the development and training of UAE Nationals, many of whom will go on to play prominent roles within ADIA and in the UAE as a whole.

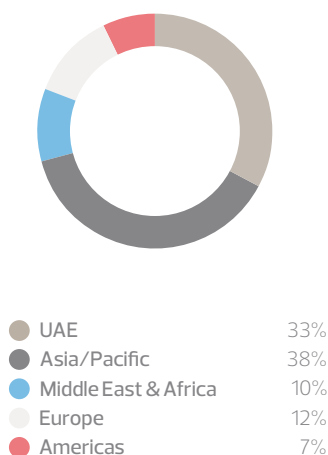
Culture

At ADIA, we define culture as a combination of behaviours and ethical values that allow us to fulfil our mission in the most optimal and sustainable way. We are proud that ADIA's cultural values of prudent innovation, effective collaboration and disciplined execution are becoming a way of life and delivering tangible benefits for our people and ADIA as a whole.

Our cultural values are not mere words; they are embedded throughout the organisation, in the way we organise ourselves, recruit new talent, evaluate and reward employees, and in our training and leadership development programmes. ADIA's people are encouraged to collaborate across departments and share their perspectives both informally and through targeted initiatives. These include regular forums, which bring together our most senior investment managers for debates on investment-related themes and to identify investment opportunities that might otherwise go unnoticed.

We also conduct a regular survey of employees that measures progress being made on these fronts and identifies areas for improvement. Recently and most noticeably, our cultural values were emphasised in ADIA's clarified mission statement.

ADIA employees by nationality



Recruitment

We believe that the broad spread of nationalities represented within ADIA is one of our core strengths, ensuring a wide array of perspectives are represented in the decision-making process. Our strategy is to attract and retain the best international and homegrown talent. We achieve this by targeting international financial centres for high-performing individuals in specialised fields, while also seeking out top UAE National recruits with the skills and attributes that we believe will make them successful in a career at ADIA. Our recruitment process is designed to provide candidates with an understanding of ADIA's culture and working environment, while assessing their experience, technical skills and behaviours, such as the way they interact and work with others. During 2013, we continued to increase our headcount across both our investment and support functions, with a continued focus on identifying, attracting and developing the best young UAE National talent.

“Our targeted approach to recruitment, coupled with career development opportunities and lifestyle, contributes to high employee engagement and low annual turnover of less than 5% on average.”

Our targeted approach to recruitment, coupled with career development opportunities and lifestyle, contributes to high employee engagement and low annual turnover of less than 5% on average.



Developing our people

In an investment landscape that is constantly evolving and increasing in complexity, it is essential that our people receive the training, guidance and support they need to perform at the highest level.

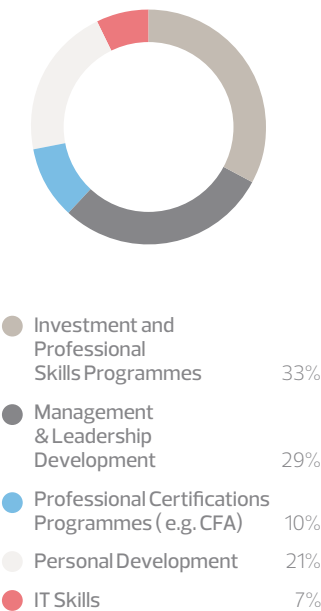
Our approach to talent and performance management ensures that employees clearly understand which goals and behaviours constitute success and how their individual objectives align with ADIA's high-level goals and culture. Line managers are supported at each step of this cycle through training and coaching. Our annual review process, meanwhile, means that leaders take time to discuss and review the performance of every employee, while identifying ways to develop their strengths and ensure that ADIA continues to grow its leadership pipeline for the future.

ADIA offers a wide range of targeted employee development programmes at all levels. These include a curriculum of core financial training, which aims to provide employees with the tools and knowledge to share ideas and contribute to internal debate, irrespective of their seniority.

ADIA is proud to employ the highest number of CFA Charterholders of any organisation in the Middle East.

Overview *continued*

Training course statistics



Our emphasis on financial training is complemented by a strong focus on teamwork and communication. This includes feedback and training around written and verbal presentation skills, as well as coaching to encourage collaboration, using both internal and leading external providers.

Aside from these formal seminars and certification curriculums, we have regular ADIA-wide presentations from corporate leaders and international experts to stimulate innovative thinking and give employees the opportunity to keep up to date on the latest industry news and analysis.

ADIA's leaders are expected to embody our values and act as examples for others. To assist them in fulfilling this role, we offer management, leadership and executive development programmes, which combine the best of our in-house knowledge and experience with the most contemporary thinking and practices from around the world. We have relationships with a number of academic institutions and learning organisations, whose programmes and courses are customised to meet ADIA's needs, in many important areas of employee development.

Supporting our UAE National talent

As one of the UAE's most established institutions, ADIA is firmly committed to developing local talent. For UAE National graduates joining ADIA, we offer the Year One Graduate Programme, which provides an immersive introduction to ADIA and the key skills and financial knowledge needed to succeed. This includes guided study to develop their financial skills, interactive simulations, as well as work experience within different investment departments to build core analysis skills and familiarise trainees with all parts of the business. Upon completion of this initial year, graduates are assigned to a department where learning becomes more department-specific and aimed at developing advanced interpersonal skills. As a whole, this training provides UAE National graduates with a smooth entry into the work environment and a strong platform from which to build successful careers.

Our scholarship programme, meanwhile, works closely with local schools to identify, develop and track young UAE Nationals with strong academic performance and leadership skills. Short-listed candidates undergo a rigorous selection process, which involves language and psychometric testing, as well as tests on competency skills and interviews. The goal is to nurture talent through exposure to best educational practices and world-class standards.

The objectives of the scholarship programme are also aligned to ensure that, if selected, students are able to transition seamlessly after graduation into ADIA's Year One Graduate Programme.



The panel



Jerome Mourgue d'Algue
Senior Portfolio Manager
Private Equities Department



Salem Khamis Al Darmaki
Investment Manager,
Americas real estate
Real Estate & Infrastructure
Department



Lee Essen
Senior Manager
Information Technology
Department



Jennifer O'Donnell
Risk Manager
Alternative Investments
Department

Working at ADIA

Working at ADIA is a unique experience. With a highly diverse workforce and global outlook, we nevertheless remain connected to our local roots and heritage.

To provide an inside view, we brought together a cross-section of employees, each of whom embodies the ADIA culture in different ways, and asked them a few questions about what it's like to work at ADIA.

How long have you been at ADIA and what brought you here?

Jerome: I joined about two years ago. I work in Private Equities in the Principal Investments team. Our mandate is to invest in private companies, typically alongside other financial investors and in a minority capacity. Before that, I spent 13 years in the private equity industry in London. The opportunity to join ADIA was very attractive. ADIA sees so much deal flow globally, and works with the best investors. The timing was also right; Principal Investments was just entering a new phase of its development and it presented lots of exciting challenges.

Salem: I joined ADIA almost six years ago and have been with Real Estate from the beginning. I was on the European side first, then moved across to cover the Americas. I graduated in Accounting from Ohio State University. I was actually interviewed at first for an accounting role

but I was more interested in an investing role, and decided on real estate because I found it easy to understand and fall in love with.

Jenny: I am a risk manager and have been with ADIA now for seven years, having moved over with my husband who got a job in Abu Dhabi first. Of course, I had heard of ADIA and knew it had a great reputation, so I was delighted when I was asked to join the Alternative Investments Department.

Lee: I have been in ADIA just over 18 months. I was previously in the UK, working mainly in large investment banks. My background is in IT infrastructure: databases, servers, storage and data centres. In the support functions, ADIA isn't necessarily as well known as it is in the front office. But, obviously, when I got here it was a very positive surprise. I moved with my wife and two children.



What was the biggest surprise for you when you started at ADIA?

Lee: For me, it was the sheer diversity – so many nationalities, lots of different views, and different approaches, which in my opinion results in a more creative environment to work in. Probably as a result of that, ADIA is relaxed and friendly; a lot of people are not in their own country and so tend to make friends a lot more easily. Both the organisation and Abu Dhabi itself are very welcoming.

Jenny: I found it interesting that, although there are obviously processes to ensure that investment decisions are carefully analysed, there is still very much an open door culture to senior management. Coming from a risk role where escalations are very important, it's refreshing that we don't have to wait for committees to express concerns – all ideas are welcomed and accepted. That isn't necessarily typical in large organisations.

Salem: When I was hired in 2008, a pleasant surprise was the development for junior people when they join, especially UAE Nationals. There are a lot of technical courses available, as well as qualifications such as CFA, Claritas and CPA (Certified Public Accountant) along with opportunities for external

internships with well known international organisations. Starting last year, all UAE National graduates who join ADIA now spend their first year in the Year One Graduate Programme, where they can learn the skills they will need and also find out more about ADIA as a whole and what kind of role might suit them best. Altogether, it's an impressive combination.

Jerome: ADIA has a truly long-term investment horizon and this feeds directly into what we do. Everyone out there says they are long-term investors, but in the end, if you're investing out of a fund, that fund has a defined life and then you need to sell. ADIA has the luxury of being able to take the long view and that creates opportunities that are not available to others – to keep an asset for a very long time, if that makes sense.

“There are a lot of technical courses available, as well as qualifications such as CFA, Claritas and CPA (Certified Public Accountant) along with opportunities for external internships with well known international organisations.”

Working at ADIA *continued*

“...although there are obviously processes to ensure that investment decisions are carefully analysed, there is still very much an open door culture to senior management.”

What's the best thing about your job?

Jenny: The fact that I genuinely get access to some of the most experienced individuals in the financial world, who come regularly and speak to us. You can see their drive and enthusiasm, why they're so successful. I thoroughly enjoy listening to and learning from them.

Jerome: Because of the global nature of our business, there is a lot of variety in what I do. One day, I might be dealing with a complex investment opportunity in the U.S. involving large and sophisticated financial investors. Another day, I could be working on a transaction in an emerging market where the complexities lie this time in understanding domestic and political issues, the macroeconomic situation and rapid changes that have taken place. That breadth of experience makes my job very interesting.

Salem: I would agree in terms of the people you work with, the organisation, access to investments. One thing not directly related to this question, but that I think is important, is that we are very conscious of our reputation and the relationships we have in the markets we invest in. It's interesting because, when we look at an investment, we examine it from an economic perspective, of course, but we also think carefully about what all the implications will be. We see ourselves as guests in the countries we invest in; almost like ambassadors of a country. It's part of what makes me proud to work here.

How would you describe ADIA's work environment/culture?

Jerome: Respect is very important, but you can also take a risk in speaking your mind. Obviously, you have to do it in a way that is not perceived as offensive. It's a culture that encourages honestly expressing opinions but with respect for different views.

Lee: The key thing here is that you succeed collaboratively. You don't succeed if you deliberately try to be successful at the expense of someone else. That doesn't work at all.

Salem: ADIA is a place that is always looking at how it can do things better. Yes, we benchmark against other organisations around the world, but the question is always – what is the best way for ADIA? And every time we think about building a team, making an investment, changing the way we organise ourselves, we always ask if we are doing it in the best way for ADIA. I've been hearing this ever since I joined. So there is openness to ideas from outside, but there is also a strong sense of pride in what we've achieved and confidence in our own internal knowledge and experience.



“ADIA is a place that is always looking at how it can do things better. Yes, we benchmark against other organisations around the world, but the question is always — what is the best way for ADIA?”

What about work/life balance?

▲ From left to right: Lee Essen and Jerome Mourgue d'Algue.

Jerome: People understand that family is very much at the centre of UAE culture. If there is a family issue, people will understand. There is also the expectation that you need to deliver what you've been hired for and that means working hard.

Lee: I agree that the number of hours per day that you put in working is arguably very similar to any big financial centre, but the overall work/life balance for me is stunningly different. I used to have a two-hour commute to and from the office each day. Now I have dinner with my kids practically every day. That didn't happen before.

Our history

1960

1970

1980

1990

World events

— 1971

UAE founded as an independent nation.

— 1985

Mikhail Gorbachev elected by the Politburo as General Secretary of the Communist Party of the USSR.

— 1989

In response to massive protests, the East German Government allows East Berliners to cross into West Berlin. The dismantling of the Berlin Wall begins shortly thereafter.

— 1990

Iraq invades Kuwait.

— 1991

Attempted coup in Russia.

— 1995

Dayton Agreement ends Bosnian War and confirms Bosnian independence.

— 1998

Decline in commodity prices triggers financial crisis in Russia.

ADIA

— 1967

Creation of Abu Dhabi's "Financial Investments Board" under the Department of Finance (mandate given to UBS, Robert Fleming, Morgan Guaranty Trust and Indosuez).

— 1976

Decision to separate ADIA from the Government of Abu Dhabi as an independent organisation. Created the following departments: Equities & Bonds, Treasury, Finance & Administration, Real Estate, Local & Arab investments.

— 1986

Started investing in alternative strategies.

— 1987

Equities and Bonds departments became regional (North America, Europe and Far East).

— 1988

Number of employees exceeds 500 mark.

— 1989

Started investing in private equity.

— 1993

Started formal asset allocation process with a set of benchmarks and guidelines. Bonds moved from Equities Department to Treasury Department.

— 1997

Creation of the global Private Equities Department.

— 1998

Started investing in inflation-indexed bonds.

Financial events

— 1973

Oil crisis – Oil prices soared, causing the 1973–1974 stock market crash.

— 1980

Latin American debt crisis, beginning in Mexico.

— 1987

Black Monday. The largest one-day percentage decline in stock market history.

— 1992

Black Wednesday. Speculative attacks on currencies in the European Exchange Rate Mechanism.

— 1997

Asian financial crisis – Devaluations and banking crises across Asia.

2000

2010

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| — 2002 UN Security Council passes resolution demanding that Iraq disarm. | — 2003 The Human Genome Project is completed. | — 2004 Enlargement of NATO and the European Union incorporates most of former Eastern Bloc. | — 2008 Democratic candidate Barack Obama elected to be 44th President of the United States. | — 2011 Japan tsunami and earthquake. | — 2013 Deaths of Margaret Thatcher and Nelson Mandela. |
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|---|---|---|--|---|---|---|
| — 2005 Dedicated allocation to small caps within equities, and investment-grade credit within fixed income. | — 2007 Started investing in infrastructure sector. Moved into new headquarters. | — 2008 ADIA participates in the development of policy principles for international investments with the U.S. Department of the Treasury. ADIA appointed co-Chair with the IMF of the International Working Group of Sovereign Wealth Funds. | — 2009 Creation of Investment Services Department. Founding member of the International Forum of Sovereign Wealth Funds (IFSWF). | — 2011 Creation of Indexed Funds Department and External Equities Department; combined real estate and infrastructure operations to create Real Estate & Infrastructure Department. | — 2012 Creation of three new departments — Human Resources, — Central Dealing — General Services. Launched Year One Graduate Programme, which aims to provide our UAE National recruits with key workplace skills, hands-on training and experience across all asset classes. | — 2013 Reorganisation of Accounts Department. Restructuring in IT Department. |
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| — 2000 Internet bubble bursts. | — 2002 New York – Dow saw its second-biggest gain ever. Dow Jones Index added 488.95 points to reach 8,191.29. The buying was spurred by the arrest of offenders in the Adelphia scandal. | — 2008 Global financial crisis – Central banks and policymakers around the world announce unprecedented stimulus packages in an effort to restore liquidity and stabilise the financial system. | — 2009 U.S. budget deficit moves above \$1 trillion for the first time. IMF says global economy in worst shape in 60 years. | — 2010 Dodd–Frank Wall Street Reform and Consumer Protection Act signed into law by U.S. Congress. | — 2013 U.S. Federal Reserve tapering begins, leading to emerging market outflows. |
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