Natural Resource Funds

Abu Dhabi

Abu Dhabi City

Abu Dhabi Investment Authority

Natural Resource Governance Institute

Columbia Center on Sustainable Investment
Synopsis

Market Value

**Abu Dhabi Investment Authority**

$627 billion

### Fund Highlights

- **Santiago Compliance Index**
  - Score: 53 / 100

- **Resource Governance Index Natural Resource Fund Score**
  - not yet rated

- **Truman Sovereign Wealth Fund Scoreboard**
  - Score: 58/100

**Good Governance Fundamentals**

<table>
<thead>
<tr>
<th>Good Governance Fundamentals</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clear Deposit Rules</td>
<td>No</td>
</tr>
<tr>
<td>Clear Withdrawal Rules</td>
<td>No</td>
</tr>
<tr>
<td>Clear Investment Rules</td>
<td>Yes</td>
</tr>
<tr>
<td>Transparent</td>
<td>No</td>
</tr>
<tr>
<td>Publicly Available Audits</td>
<td>No</td>
</tr>
<tr>
<td>Effective Oversight</td>
<td>No</td>
</tr>
</tbody>
</table>

- **Investment risk is controlled by diversifying investments and through target asset class allocations.**

- **The Abu Dhabi Investment Authority, founded under a different name in 1967, is the largest of Abu Dhabi’s three natural resource funds.**

- **The Authority is financed through fiscal surpluses from oil revenues as well as direct deposits from the Abu Dhabi National Oil Company.**

- **The size of annual deposits and withdrawals are arbitrary and not subject to a long-term fiscal rule.**

- **While the Authority operates independently of the government on paper, the Board of Directors is comprised mostly of ruling family members.**

- **The Authority releases annual reports, however, these reports are not made public and very little information is available on the Authority’s investments or other activities.**
**Fund Inception**

- The precursors to the Abu Dhabi Investment Authority, the Financial Investments Board and Abu Dhabi Investment Administration, were created in 1967 and 1971 respectively.²

- The Abu Dhabi Investment Authority was first established by Law No. 5 of 1976 to invest and manage Abu Dhabi’s natural resource revenues, replacing the Financial Investments Board and Abu Dhabi Investment Administration. Its governing regulations were updated in 1981.³

**Fund Objectives**

- The Abu Dhabi Investment Authority is a future generations savings fund.⁴ It is the oldest and largest of Abu Dhabi’s many sovereign wealth funds.

- The Authority’s purpose is to manage and invest Abu Dhabi’s natural resource revenues, especially any financial surplus from oil exports, for the future welfare of the government of Abu Dhabi and the benefit of future generations.⁵
Each box represents a regulatory standard essential for promoting consistent use of and safeguarding resource revenues. White boxes highlight regulatory gaps in fund governance.

8/16
Good Governance Standards Met
Operational Laws, Rules and Policies

Fund Deposit Rules

- The Government of the Emirate of Abu Dhabi deposits budget surpluses into the Abu Dhabi Investment Authority that are derived from petroleum revenues. Petroleum revenues are not defined, but in practice they include taxes on oil companies as well as profits from the Abu Dhabi National Oil Company. Income from investments is reinvested.⁶

- The Abu Dhabi National Oil Company pays an undisclosed percentage of its income directly into two natural resource funds, the Abu Dhabi Investment Council and the Abu Dhabi Investment Authority.⁷

Fund Withdrawal Rules

The Abu Dhabi Investment Authority is required to make funds available for withdrawal by the Government whenever needed. Withdrawals occur infrequently and usually during prolonged periods of historically low petroleum prices.⁸

Fiscal surpluses and an undisclosed percentage of Abu Dhabi National Oil Company profits are deposited into the Authority.
Operational Laws, Rules and Policies

Flow of Funds

Petroleum Revenues

Includes taxes on oil companies and profits of the Abu Dhabi National Oil Company

Government Budget

Surplus

Deficit

Abu Dhabi Investment Authority

Undisclosed portion of Abu Dhabi National Oil Company’s profits are directly deposited into the Abu Dhabi Investment Authority

Investment income is reinvested
Investment Laws, Rules and Policies

Investment Authority
The Abu Dhabi Investment Authority’s Managing Director is appointed by the Ruler of the Emirate through a decree and vested with the authority to implement investment decisions.9

Investment Strategy
• The Abu Dhabi Investment Authority chooses an undisclosed level of risk and then attempts to maximize returns within those parameters. The Authority takes a long-term approach to investments.10
• The Authority uses fixed weighting of over two dozen asset classes and sub-categories to achieve what they call a “neutral benchmark”, their undisclosed long-run target rate of return.11

Investment Allocation12
The Abu Dhabi Investment Authority’s investments are diversified according to the following target allocation by asset class:
• Developed equities 32-42 percent
• Emerging market equities 10-20 percent
• Small cap equities 1-5 percent
• Government bonds 10-20 percent
• Credit 5-10 percent
• Alternative 5-10 percent
• Real estate 5-10 percent
• Private equity 2-8 percent
• Infrastructure 1-5 percent
• Cash 0-10 percent

The Abu Dhabi Investment Authority’s investments are diversified according to the following target allocation by geographic region:
• North America 35-50 percent
• Europe 20-35 percent
• Developed Asia 10-20 percent
• Emerging markets 15-25 percent

Actual Investments
• The Abu Dhabi Investment Authority does not publish information on actual investments by class or geographic region.

Policy on In-State Investments
• The Abu Dhabi Investment Authority does not invest in the United Arab Emirates and rarely in the Gulf region.13
The Government of Abu Dhabi, under the former Emir of Abu Dhabi, passed the legislation creating the Abu Dhabi Investment Authority.

The Board of Directors has ultimate oversight over the Abu Dhabi Investment Authority’s management. The Board’s members are appointed by the Emir of Abu Dhabi, with over half of its members coming from Abu Dhabi’s ruling family. The Emir also serves as the Board’s Chairman.

An internal audit department reports to the Managing Director and the Board of Director’s Audit Committee.

The Managing Director is responsible for investment and operational decisions and reports to the Board of Directors, of which the Managing Director is also a member.

The Investment Committee advises the Managing Director on investment policy.

75% of the Abu Dhabi Investment Authority’s assets are managed externally.

The Audit Committee oversees and appoints two external auditors.
Oversight and Safeguards

Oversight Mechanisms

- A **periodic review process of investment methodology** to improve management of investments is done by the Abu Dhabi Investment Authority’s Investment Committee and then approved by its Managing Director.

- Finances are subject to **regular and comprehensive internal audits**.

- Funds are managed **separately from** the country’s **international reserves**.

- Fund finances are subject to a **regular and independent external audit** that meets international standards.

Common Oversight Mechanisms or Safeguards Not Present in Abu Dhabi

- Arbitrary withdrawals from the Funds are allowed; spending from petroleum revenues does **not need approval by parliament** in every case.

- **International oversight institution**, such as the World Bank or the International Monetary Fund, do not routinely monitor Fund management.

- **Oversight by citizens/civil society organizations** does not exist.

- Despite claims that the Abu Dhabi Investment Authority is independent of the government, the **significant presence of leading members of the ruling family on the Board of Directors** limits institutional independence.
**Transparency Laws, Rules and Policies**

There is public disclosure of the following:

<table>
<thead>
<tr>
<th>Category</th>
<th>Disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td>When or how often Fund reports are published and made publicly available</td>
<td>yes</td>
</tr>
<tr>
<td>Which individuals or organizations are responsible for publishing Fund reports</td>
<td>no</td>
</tr>
<tr>
<td>Size of the Fund(s)</td>
<td>no</td>
</tr>
<tr>
<td>Deposit and withdrawal amounts</td>
<td>no</td>
</tr>
<tr>
<td>Returns on investments</td>
<td>yes</td>
</tr>
<tr>
<td>Detailed asset allocation – geographic location</td>
<td>no</td>
</tr>
<tr>
<td>Detailed asset allocation – asset class</td>
<td>no</td>
</tr>
<tr>
<td>Detailed asset allocation – specific assets</td>
<td>no</td>
</tr>
<tr>
<td>Natural resource prices and other fiscal assumptions used to calculate deposit and withdrawal amounts allowed under fiscal rules</td>
<td>no</td>
</tr>
</tbody>
</table>
Annex:
List of Applicable Laws

Law (5) of 1976 of the Emirate of Abu Dhabi
Law (5) of 1981 of the Emirate of Abu Dhabi


Endnotes

2. http://www.adia.ae/En/About/History.aspx