FINANCIAL TIMES
SUNDAY 20 FEBRUARY 2022
FT.COM

Abu Dhabi Investment Authority

# Abu Dhabi wealth fund bets on scientific approach using quant experts

## Adia has built a 50-strong team of physicists, academics and data specialists to identify and take advantage of market anomalies

**ANDREW ENGLAND,** MIDDLE EAST EDITOR

Gathered together on a floor of the Abu Dhabi Investment Authority's 40-store headquarters, a group of physicists, academics and data experts huddle around whiteboards, scribbling equations and feeding reams of data into state of the art computers.

Many were lured to Adia, one of the world's largest sovereign wealth funds, from outside the traditional world of finance — more likely a university campus than an investment bank. But they are all part of a new, more than 50-strong team that the fund believes will be crucial to help it navigate the increasingly complex investment landscape.

The fund, which is estimated to manage about $700bn, has over the past two years been building a "research and development lab and factory" in the hope that scientific approach will make it more nimble and better able to identify and take advantage of market anomalies.

It is one of the more radical shifts in thinking for a fund that has traditionally been considered among the more conservative SWFs, but is adapting in recognition of the impact artificial intelligence and other technological advances will have on investment.

In a rare insight, Adia told the Financial Times that there was "a sense that a lot of the sources of competitive advantage in a fast moving market are very short lived so you need to be more agile and dynamic to capture those".

Among the recruits is Marcos Lopez De Prado, a professor and quant expert at Cornell University, who is global head of quantitative research and development at Adia. He said having an in-house team meant the SWF "can mitigate many pitfalls of financial research, such as . . . knowledge hoarding".

"There are also benefits associated with building this team, and the systems that support it, from scratch," said Lopez De Prado, who was previously an executive at AQR Capital Management and Guggenheim Partners. "Creating our own capabilities . . . gives us the flexibility to evolve and innovate as we see the future of markets changing and develop our own IP."

Other members of the team include Alexander Migdal, a physicist and New York University professor, and Alexander Lipton, a professor at Hebrew University who is co-founder of Sila Money and a former co-head of the global quantitative group at Bank of America.

The team's findings will be made available to all the fund's asset classes and Adia said it had already "generated a range of new investment ideas and put them into production with encouraging results".

Lipton said the team would continue to expand.

"We are actively hiring true subject matter experts, thought leaders in their fields, whether that be in machine learning, strategy development, portfolio construction, risk, portfolio implementation, digital platforms or a number of other specific disciplines," he said.

Javier Capap, director of sovereign wealth research at the Center for the Governance of Change based at IE University, said Adia was following in the footsteps of Singapore's state funds GIC and Temasek, which are also investing in more scientific approaches to fund management.

"[Adia is] very much exploring what comes next and it explains this talent acquisition," he added.

The fund said establishing the lab was part of a decade-long process of increasing specialisation by bringing in "our own experts, whilst maintaining our ability to work with external partners".

The fund, which was set up in 1976 as the custodian of Abu Dhabi's petrodollar surpluses, has typically been viewed as an organisation that moves at a cautious pace.

In the 13 years since it first began publishing an annual review, it has publicly announced changes to asset allocation only twice: in 2012 when it lowered its weighting in developed market equities from 35-45 per cent to 32-42 per cent and in 2020 when it increased private equity holdings from 2-8 per cent to 5-10 per cent and infrastructure from 1-5 per cent to 2-7 per cent.

It has also streamlined its middle and back offices in recent years to improve efficiency, merged its internal and external equity teams and closed its internal Japan equities desk, using passive funds and external managers for that market instead.

Half of its assets under management are externally managed, down from 80 per cent in 2009 as internal teams have taken on more responsibility. Adia said it did not expect the new lab to affect its relationships with external managers, including hedge funds.

Like other Gulf SWFs, Adia has been active throughout the pandemic, notably its private equity team, which deployed a record level of capital in 2020 with a focus on Asia.

The only performance data Adia publishes are 20 and 30-year annualised rates of return, which it said were 6 and 7.2 per cent respectively at the end of December 2020.

Professor Patrick Schena, who studies SWFs at The Fletcher School, Tufts University, said the entire asset management industry was looking out for alternative data sources and analytical techniques to identify trends that might not otherwise be obvious.

This includes social media and open source company and sector information. As public markets become more efficient with information "travelling more quickly", funds need to respond more swiftly, he said.

"Structurally, we are also in a very challenging space. We are in an unprecedented time with low interest rates. With the possibility that rates will tick up, many of these funds will struggle to manage large fixed income portfolios," he said. "Potentially, lower future returns require that you be well ahead of that curve if you are going to compete."

Schena added that as Adia now does more internal investing, it was not surprising that it would want to develop new in-house techniques and strategies.

"In some respects, they may eventually compete with some of their hedge fund managers," he said. "It's also true that large, leading sovereign wealth funds are sensitive to what each other do and so I see them in a competitive sense emulating, while trying to stay ahead."