

Hedge Fund Portfolio Review through August 2015

Los Angeles • New York

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Role in the Total Fund

Overview of the Portfolios

- Equity Hedge Portfolio
- Real Return Portfolio

Market Environment

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Description of Strategy

Managers investing primarily in equities making active security selection on long and short positions.

Sub-strategies:

- Equity long/short – investing in equities
- Event Driven – investing primarily in equities but also debt while anticipating a particular change or event to occur with a company (e.g. acquisition)

Role in the Total Fund

The equity hedge fund portfolio's role is to increase the Sharpe ratio of the total fund's equity exposure by:

- Over the long term, producing equity returns by combining some equity exposure and significant alpha generation
- Over the short/medium term, reduce the volatility of the equity portfolio by hedging the exposure

Description of Strategy

Managers generally investing in non-equity asset classes or investing with a low net exposure (i.e. low equity beta). Exposures include both long and short positions on interest rates, credit, currency, commodities, and to a limited degree equities.

Sub-strategies:

- Credit– investing in corporate credit instruments taking both long and short positions
- Relative Value– investing in fixed income, on a long and short basis, seeking price discrepancies of instruments with similar fixed income risk
- Macro – investing across asset classes, on a long and short basis, based on fundamental or quantitative judgments
- Multi-strategy- investing across hedge fund strategies

Role in the Total Fund

The real return hedge fund portfolio’s role is to increase the Sharpe ratio of the total fund and to provide an expected return with low volatility by:

- Over the long term, produce a significant return premium over the risk free rate (e.g. T-bills)
- Over the short/medium term, maintain a low beta or exposure to equity markets
- Over the long term, produce a level of volatility comparable to fixed income

Equity Hedge Portfolio

Total portfolio market value:

- \$617 million
- 8% of total fund

Diversification

Two substrategies

- 67% Equity Long Short
- 33% Event Driven

Eight managers

- Largest 18%

Risk

Beta (ACWI)

- 0.26

Gross Exposure

- 187%

Net Exposure

- 39%

Since Inception Standard Deviation

- 4.08%

Equity Hedge Managers

| Fund | Strategy | Market Value | Portfolio Weight | Total Fund Weight |
|---|-------------------|--------------|------------------|-------------------|
| Ascend ERSRI Fund LP | Equity Long/Short | 73,278,324 | 12% | 0.92% |
| ESG Cross Border Equity Fund LP | Equity Long/Short | 43,516,144 | 7% | 0.54% |
| PFM Diversified Fund, L.P. | Equity Long/Short | 83,645,857 | 14% | 1.05% |
| Samlyn Onshore Fund, L.P. | Equity Long/Short | 111,691,397 | 18% | 1.40% |
| Viking Global Equities, LP | Equity Long/Short | 101,404,209 | 16% | 1.27% |
| Davidson Kempner Institutional Partners, L.P. | Event Driven | 75,517,546 | 12% | 0.94% |
| Elliott Associates, L.P. | Event Driven | 85,201,100 | 14% | 1.07% |
| Luxor Capital Partners, LP | Event Driven | 42,387,764 | 7% | 0.53% |
| Total ERSRI Equity Hedge Portfolio | | 617,349,081 | | |

Recent Large Long Positions

| | |
|--------------------|-----------|
| Actavis | E-Trade |
| Marathon Petroleum | Hess |
| Gilead | Walgreens |
| Llumina | Sanofi |
| Vulcan Materials | JD.com |

Real Return Portfolio

Total portfolio market value:

\$523 million

6% of total fund

Diversification

Four sub-strategies

- 26% Discretionary Macro
- 7% Systematic Macro
- 19% Long Short Credit
- 36% Multi Strategy
- 12% Market Neutral

Nine managers

- Largest 20%

Risk

Beta (ACWI)

.11

Gross Exposure

733%

Net Exposure

33%

Standard Deviation

2.74%

Real Return Managers

| Fund | Strategy | Market Value | Portfolio Weight | Total Fund Weight |
|--|-------------------|--------------|------------------|-------------------|
| Brigade Leveraged Capital Structures Fund LP | Credit Long/Short | 55,393,909 | 11% | 0.69% |
| Claren Road Credit Fund, Ltd. | Credit Long/Short | 42,829,092 | 8% | 0.54% |
| Brevan Howard LP | Global Macro Disc | 80,713,581 | 15% | 1.01% |
| Graham Absolute Return Trading Ltd. | Global Macro Disc | 55,660,326 | 11% | 0.70% |
| Winton Futures Fund Limited | Global Macro Syst | 35,776,313 | 7% | 0.45% |
| Capula Global Relative Value Fund Ltd. | Market Neutral | 61,617,673 | 12% | 0.77% |
| DE Shaw Composite Fund LLC | Multistrategy | 86,115,594 | 16% | 1.08% |
| OZ Domestic Partners II, L.P. | Multistrategy | 104,471,103 | 20% | 1.31% |
| Total ERSRI Real Return Portfolio | | 523,084,496 | | |

Performance as of August 31, 2015

All returns are net-of-fees and annualized, as are risk measures

Three hedge fund composites are evaluated:

– **Real Return Hedge Funds:**

- \$523 million invested in 8 hedge funds
- Target 7% of total assets, within the 17% overall real return allocation
- Benchmarks – T-bills+4%; HFRI Fund-of-Funds Index

– **Equity Hedge Funds:**

- \$617 million invested in 8 hedge funds
- Target 8% of total assets, within the 60% overall global equity allocation
- Benchmarks – MSCI ACWI Index; HFRI Equity Hedged Index

– **Combined Hedge Funds:**

- Combines the Real Return and Equity Hedge Funds into one composite

Hedge Fund Portfolio Return and Risk: Inception through August 31, 2015

| | ERSRI Equity Hedge Funds | ERSRI Real Return Funds | Combined ERSRI Hedge | HFRI Fund of Funds Index | HFRI Equity Hedged Index | ACWI | T-bill | Barc Agg |
|--------------|-----------------------------------|----------------------------------|----------------------------|-----------------------------|-----------------------------|--------|--------|----------|
| Total Return | 7.63% | 4.95% | 6.40% | 4.31% | 5.19% | 8.91% | 0.06% | 2.47% |
| Total Risk | 4.08% | 2.74% | 3.22% | 3.31% | 5.90% | 11.05% | 0.02% | 2.79% |

Cliffwater 2015 Long Term Forecast of Hedge Funds Returns and Risk

Expected Sources of Hedge Fund Return and Risk -- July 1, 2015

| Strategy | 1 | 2 | 3 | | | | 4 | | | 10 | 11 |
|----------------------|---------|-------|--------------|---------------|-------------|-----------|--------------|------------|------------------|--------------|------------|
| | Model | Libor | Beta | | Beta | | Alpha | | Libor+Beta+Alpha | | |
| | Weights | | Equity Beta* | Credit Beta** | Beta Return | Beta Risk | Alpha Return | Alpha Risk | Info Ratio | Total Return | Total Risk |
| Market Neutral | 5% | 1.60% | -0.05 | 0.00 | -0.29% | 1.10% | 2.66% | 3.29% | 0.81 | 3.97% | 3.47% |
| Credit/Distressed | 20% | 1.60% | 0.00 | 0.35 | 1.58% | 2.80% | 2.40% | 3.58% | 0.67 | 5.58% | 4.54% |
| Event Driven | 20% | 1.60% | 0.20 | 0.15 | 1.85% | 5.00% | 3.50% | 4.47% | 0.78 | 6.95% | 6.71% |
| Equity Long/Short | 25% | 1.60% | 0.40 | 0.10 | 2.79% | 9.15% | 4.20% | 4.65% | 0.90 | 8.59% | 10.26% |
| Macro-Discretionary | 15% | 1.60% | 0.10 | 0.00 | 0.59% | 2.20% | 4.90% | 5.72% | 0.86 | 7.09% | 6.12% |
| Macro-Systematic | 5% | 1.60% | -0.10 | 0.00 | -0.59% | 2.20% | 5.00% | 9.35% | 0.53 | 6.02% | 9.61% |
| Multistrategy | 10% | 1.60% | 0.15 | 0.20 | 1.78% | 4.20% | 3.00% | 4.61% | 0.65 | 6.38% | 6.24% |
| Hedge Fund Portfolio | 100% | 1.60% | 0.16 | 0.22 | 1.60% | 4.57% | 3.65% | 3.42% | 1.07 | 6.85% | 5.73% |

Hedge fund expected return equals 6.85% for a diversified portfolio of approximately 20 hedge funds.

* MSCI World Equity Index

** S&P/LSTA Leveraged Loan Index

Hedge Fund Actual over Last 5 Years (Cliffwater Model Portfolio)

Cliffwater Hedge Fund Model Performance Attribution: 5 Years ending Sept 30, 2014*

| Strategy | 1 | 2 | 3 | | | | 4 | | | 6 | 7 | 8 | 9 | 10 |
|---------------------|---------|-------|--------------|---------------|-------------|-----------|--------------|------------|------------|--------------|------------------|---|---|----|
| | Model | Libor | Beta* | | Beta | | Alpha | | Alpha | | Libor+Beta+Alpha | | | |
| | Weights | | Equity Beta* | Credit Beta** | Beta Return | Beta Risk | Alpha Return | Alpha Risk | Info Ratio | Total Return | Total Risk | | | |
| Market Neutral | 5% | 0.32% | -0.12 | 0.14 | -0.31% | 1.48% | 2.42% | 1.66% | 1.45 | 2.34% | 2.22% | | | |
| Credit/Distressed | 15% | 0.32% | 0.03 | 0.65 | 4.29% | 2.75% | 3.84% | 2.24% | 1.71 | 8.68% | 3.54% | | | |
| Event Driven | 21% | 0.32% | 0.29 | 0.52 | 6.04% | 5.73% | 2.91% | 3.31% | 0.88 | 9.59% | 6.61% | | | |
| Equity Long/Short | 29% | 0.32% | 0.36 | 0.35 | 5.66% | 6.21% | 0.29% | 2.86% | 0.10 | 6.42% | 6.83% | | | |
| Macro-Discretionary | 11% | 0.32% | 0.12 | -0.08 | 0.70% | 1.64% | 3.72% | 3.84% | 0.97 | 4.86% | 4.17% | | | |
| Macro-Systematic | 5% | 0.32% | 0.22 | -0.58 | -1.45% | 2.42% | 4.71% | 10.07% | 0.47 | 3.30% | 10.35% | | | |
| Multistrategy | 15% | 0.32% | 0.11 | 0.41 | 3.63% | 2.91% | 2.62% | 1.92% | 1.36 | 6.74% | 3.48% | | | |
| CW Model Portfolio | 100% | 0.32% | 0.20 | 0.34 | 4.05% | 3.91% | 2.28% | 2.14% | 1.07 | 6.86% | 4.45% | | | |

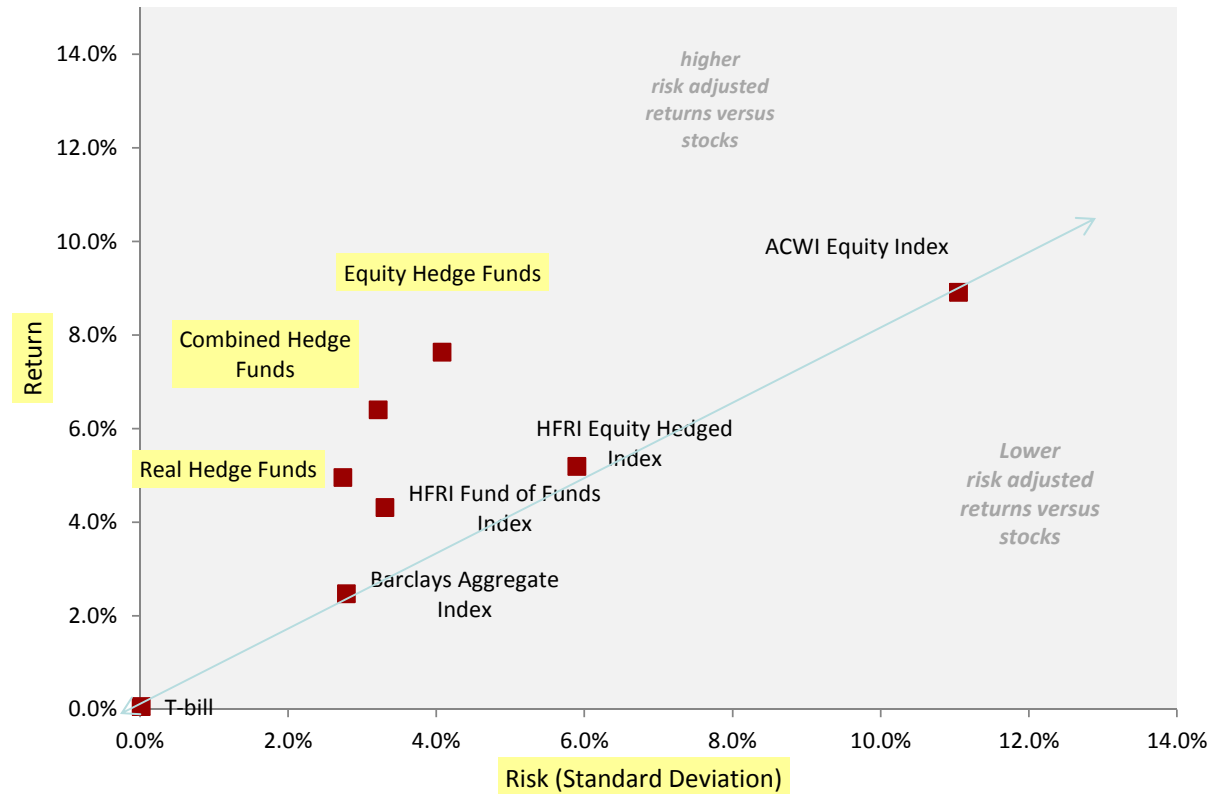
Actual hedge fund performance for Cliffwater's model portfolio equals 8.85% over the last 5 years with a 1.07 information ratio.

How has it Performed – Risk and Return Since Inception

Rhode Island hedge fund portfolios outperformed HFRI FOF Index over the 46 month period from inception (**6.40%** versus 4.31%, respectively) and had significantly better risk-adjusted returns

Both the RI Equity hedge funds (**7.63%** return) and the Real Return hedge funds (**4.95%** return) earned returns above their respective benchmarks (HFRI Equity Hedged Index and HFRI Fund of Funds Index, respectively) and at a lower level of risk.

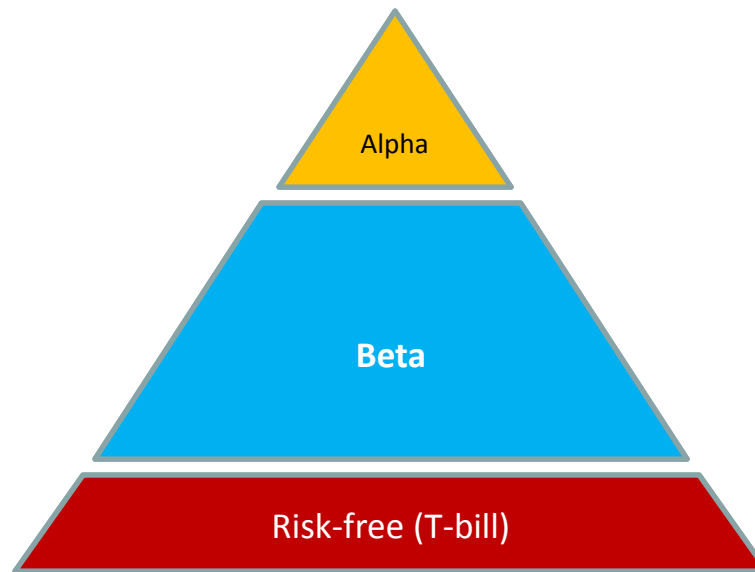
**Return and Risk (Standard Deviation)
(Nov 1, 2011 to Aug 31, 2015)**



All assets have three return components:

- **Risk-free return:** all assets are priced to earn at least the risk free return (T-bill)
- **Beta return:** markets themselves generate investor returns to reward risk taking. These returns can be accessed at little to no fee through index funds and ETFs
- **Alpha return:** active managers try to produce excess return but often competition and fees get in their way

Three Components of Return



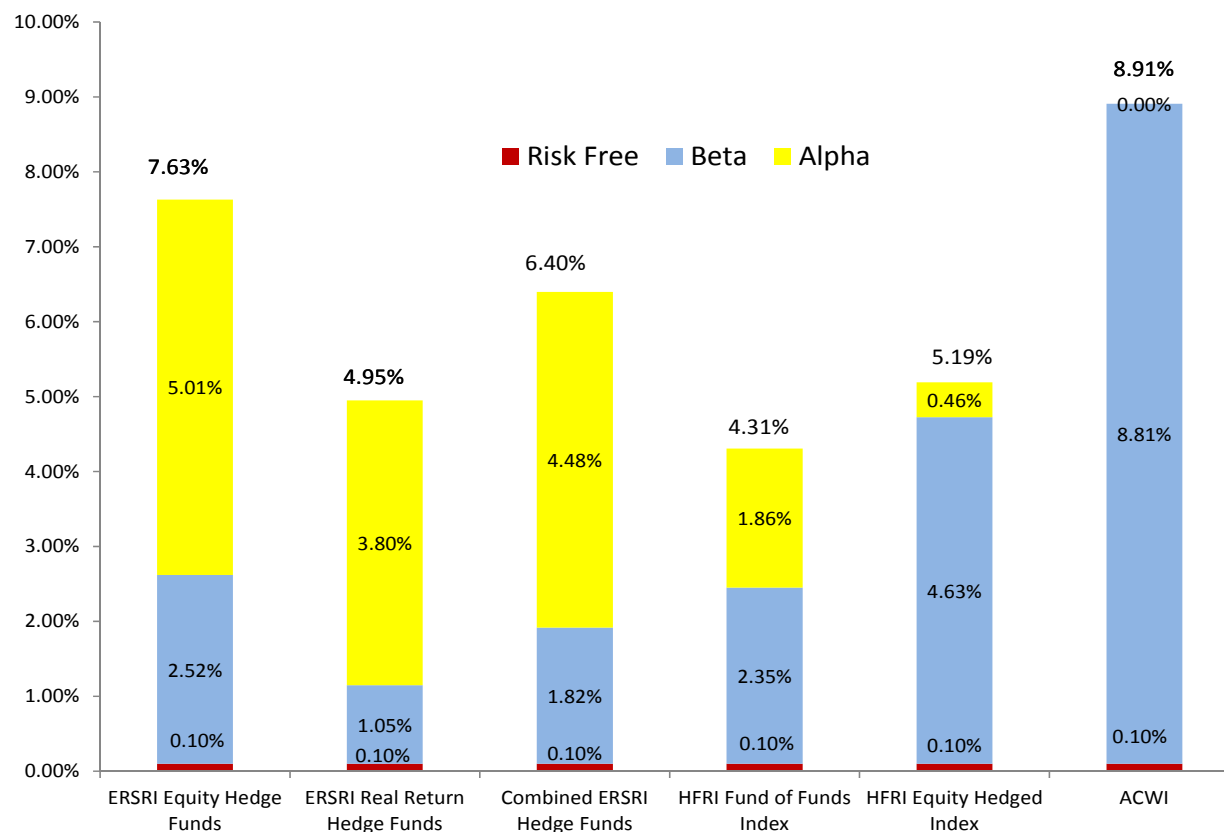
Rhode Island Hedge Fund Return Attribution into Alpha, Beta, and Risk Free

Rhode Island hedge funds combined earned alpha equal to 4.48%, which exceeds Cliffwater's expected combined alpha of 3.75%

The equity beta for the Equity Hedge Fund portfolio equaled 0.26 over the period, well below the 0.51 average beta for equity hedge funds. The Real Return Hedge Fund portfolio had a beta of 0.11 over this period.

Both the Equity and Real Return portfolios produced strong alpha of 5.02% and 3.80%, respectively.

Annualized Returns: November 2011 to August 2015



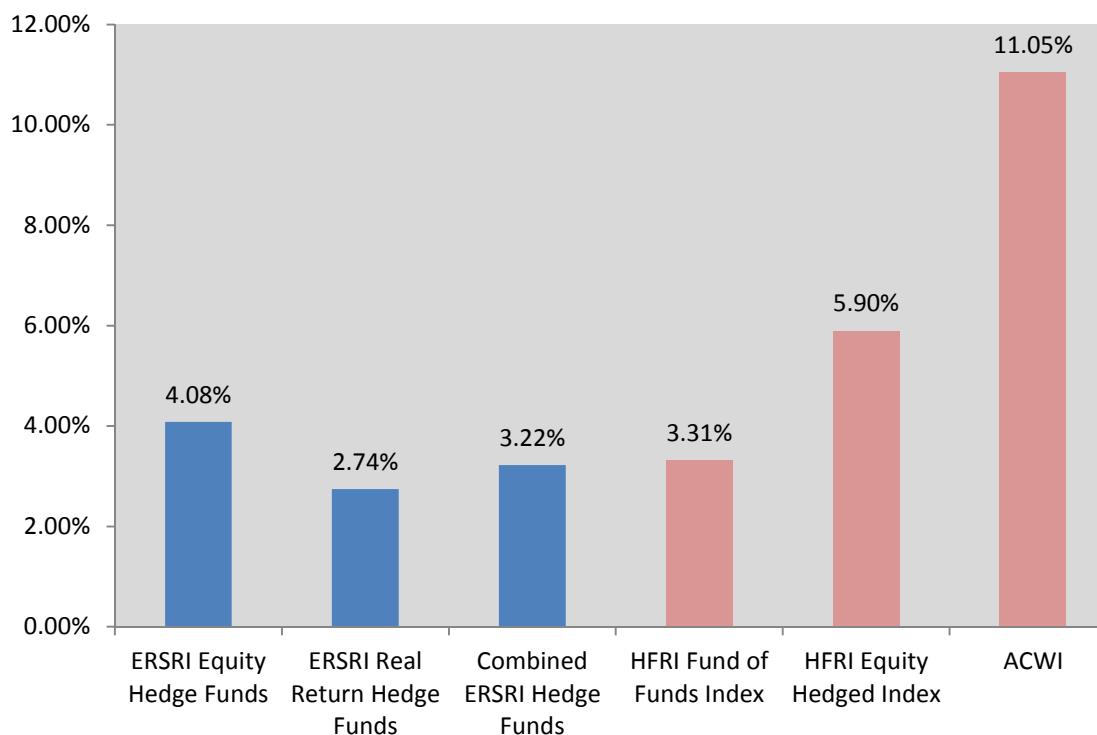
Rhode Island Hedge Fund Risk

Rhode Island hedge funds combined have generated an annualized risk (standard deviation) 3.22% since inception versus 3.31% for the HFRI Fund of Funds Index

The Equity Hedge Fund portfolio's risk has been 4.08% versus 5.90% for the HFRI Equity Hedge Index and 11.05% for ACWI.

The Real Return portfolio's risk has been 2.74%.

Annualized Standard Deviation: November 2011 to August 2015



ERSRI Hedge Fund Performance as of August 31, 2015

| Fund | Market Value | Actual % | Returns | | | | | Std Dev | Sharpe Ratio |
|---|----------------------|---------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | | | Aug | YTD | 1 Year | 3 Year | Incep | | |
| Global Equities | | | | | | | | | |
| Ascend ERSRI Fund LP | 73,278,324 | 6.4% | -0.76% | 2.21% | 3.41% | 6.17% | 5.35% | 2.61% | 1.89 |
| Davidson Kempner Institutional Partners, L.P. | 75,517,546 | 6.6% | -0.56% | 1.58% | 0.32% | 6.20% | 6.18% | 2.15% | 2.66 |
| Elliott Associates, L.P. | 85,201,100 | 7.5% | 0.50% | 3.55% | 7.17% | 10.35% | 9.58% | 3.35% | 2.66 |
| ESG Cross Border Equity Fund LP | 43,516,144 | 3.8% | -5.60% | -5.90% | -10.63% | - | -10.47% | 8.03% | -1.37 |
| Indus Asia Pacific Fund, LP | 706,740 | 0.1% | -2.98% | -4.91% | -16.75% | -4.59% | -3.04% | 6.66% | -0.48 |
| Luxor Capital Partners, LP | 42,387,764 | 3.7% | -6.54% | -4.73% | -13.19% | - | -11.65% | 10.29% | -1.17 |
| PFM Diversified Fund, L.P. | 83,645,857 | 7.3% | -2.16% | 9.36% | 12.50% | 13.81% | 10.18% | 8.94% | 1.10 |
| Samlyn Onshore Fund, L.P. | 111,691,397 | 9.8% | -3.19% | 3.54% | 9.81% | 12.33% | 11.35% | 5.89% | 1.81 |
| Viking Global Equities, LP | 101,404,209 | 8.9% | -2.10% | 7.35% | 13.09% | 15.40% | 15.02% | 5.87% | 2.37 |
| Total Global Equities | 617,349,081 | 54.1% | -2.19% | 3.14% | 3.42% | 8.75% | 7.63% | 4.08% | 1.75 |
| MSCI AC World Index Free - Net | | | -6.86% | -3.54% | -6.29% | 9.40% | 8.91% | 11.05% | 0.80 |
| Russell 3000 Index (DRI) | | | -6.04% | -2.61% | 0.36% | 14.63% | 15.09% | 9.94% | 1.44 |
| HFRI Equity Hedge (Total) Index | | | -2.62% | 0.07% | -1.95% | 6.53% | 5.19% | 5.90% | 0.83 |
| Real Return | | | | | | | | | |
| BlueCrest Capital LP | 506,906 | 0.0% | 0.00% | -2.76% | -2.91% | -0.92% | 0.37% | 4.16% | 0.04 |
| Brevan Howard LP | 80,713,581 | 7.1% | -0.98% | 0.95% | 4.10% | 2.22% | 1.93% | 5.13% | 0.34 |
| Brigade Leveraged Capital Structures Fund LP | 55,393,909 | 4.9% | -2.54% | -0.84% | -5.39% | 2.54% | 2.97% | 4.06% | 0.67 |
| Capula Global Relative Value Fund Ltd. | 61,617,673 | 5.4% | 1.19% | 5.66% | 9.52% | 7.26% | 5.73% | 2.03% | 2.59 |
| Claren Road Credit Fund, Ltd. | 42,829,092 | 3.8% | 0.89% | -6.24% | -17.14% | - | -6.20% | 7.93% | -0.80 |
| DE Shaw Composite Fund LLC | 86,115,594 | 7.6% | | | 15.87% | 17.11% | 15.24% | 4.43% | 3.16 |
| Graham Absolute Return Trading Ltd. | 55,660,326 | 4.9% | -2.24% | 0.27% | 5.08% | 3.13% | 2.97% | 4.37% | 0.62 |
| OZ Domestic Partners II, L.P. | 104,471,103 | 9.2% | -2.87% | 1.85% | 4.98% | 9.12% | 9.03% | 4.00% | 2.11 |
| Winton Futures Fund Limited | 35,776,313 | 3.1% | -4.30% | -2.04% | 8.77% | 6.00% | 4.81% | 8.80% | 0.54 |
| Total Real Return | 523,084,496 | 45.9% | -1.23% | 1.76% | 3.43% | 5.47% | 4.95% | 2.74% | 1.67 |
| ML 3-month T-Bills | | | 0.02% | 0.02% | 0.03% | 0.06% | 0.06% | 0.02% | - |
| HFRI Fund of Funds Composite Index | | | -1.69% | 1.16% | 1.92% | 5.20% | 4.31% | 3.31% | 1.20 |
| Total Hedge Fund Portfolio | 1,140,433,577 | 100.0% | -1.75% | 2.48% | 3.38% | 7.22% | 6.40% | 3.22% | 1.85 |
| HFRI Fund of Funds Composite Index | | | -1.69% | 1.16% | 1.92% | 5.20% | 4.31% | 3.31% | 1.20 |

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