

Recommendation on Systematic Trend Following Managers for CPC Portfolio

To: Rhode Island State Investment Commission
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The purpose of this memo is to provide a summary of Cliffwater's recommendation for the addition of a third systematic trend following ("STF") manager to ERSRI's Crisis Protection Class ("CPC") portfolio. Cliffwater has completed its review and recommends the addition of Aspect Core Diversified trend strategy as a third STF manager.

Summary of Recommendation

Addition of a Third STF Manager: Cliffwater recommends the addition of a third STF manager to ERSRI's CPC portfolio. A third STF manager should provide three benefits. First, the additional manager will further diversify the organizational risk of the CPC portfolio consistent with the original portfolio framework. Second, a third STF manager can reduce the strategy risk of the CPC portfolio. Third, an additional STF manager will allow for potential value-add returns or risk mitigation through rebalancing among more options rather than fewer.

Addition of Aspect Core Diversified Trend Strategy: The initial search for STF managers, which concluded in April of 2017, resulted in four finalists: Aspect, Crabel, Credit Suisse and Welton. Crabel and Credit Suisse were initially funded. Cliffwater has reviewed the universe of low fee STF managers and recommends Aspect as the third STF manager.

Aspect Core Diversified Trend Strategy

Fund Overview: Aspect Core Diversified trend strategy is a medium term trend following strategy that trades across all major liquid futures and foreign exchange markets.

People and Organization: Aspect Capital Limited ("Aspect" or the "firm") was established in 1997 by Anthony Todd, Martin Lueck, Michael Adam, and Eugene Lambert. Mr. Adam and Mr. Lueck are two of the three founders of AHL, one of the pioneers in the managed futures space. After Man Group Plc acquired AHL, Mr. Lueck and Mr. Adam left the firm to co-found Aspect Capital with Mr. Todd and Mr. Lambert. The firm's flagship product, Aspect Diversified program, was launched in December 1998 with \$22 million in assets under management. The Aspect Diversified program's strategy assets have grown to \$3.9 billion. The firm launched the Aspect Core Diversified trend strategy in November 2014 as a 40 Act mutual fund. Including the mutual fund and separate accounts, the firm currently manages approximately \$460 million in the Aspect Core Diversified trend strategy.

Aspect is authorized and regulated by the Financial Conduct Authority (FCA). The firm is registered as a Commodity Trading Advisor and Commodity Pool Operator with the CFTC, an investment advisor with the SEC, and is a member of the NFA. Aspect Capital Asia Limited is regulated by the Securities and Futures Commission (SFC). Aspect is principally located in London. In addition, the firm has offices in Stamford, CT and Hong Kong. Aspect employs 130 employees, with 78 people in research and development and 52 back-office and support professionals. The 11 person technology team led by Dr. Dalton is responsible for the development and operation of Aspect's execution infrastructure. Martin Lueck chairs the investment management committee ("IMC"), which is comprised of Anthony Todd and the Directors of Research Simon Brown, Stefano Robbiati, and Duncan Sanders.

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Investment Strategy and Process: Aspect Core Diversified trend strategy trades 90 liquid global futures markets, including equity indices, fixed income, currencies, and commodities. The strategy is a complete carve-out of the firm's flagship Diversified Trend Fund that Aspect has run since 1998. The strategy is 100% trend following and utilizes seven different time filters ranging from two-weeks to six months, with an average holding period of three to four months. The strategy is fully systematic with all trading decisions driven by algorithms that seek to identify and exploit directional market moves.

Investment Terms: Aspect charges a management fee of 65 basis points.

Suitability of Aspect Core Diversified Trend Strategy in CPC: Aspect is complimentary to the two funded STF managers (Crabel and Credit Suisse) from a trend time horizon basis. While Crabel seeks to capture shorter term trends (e.g. 35 days) and Credit Suisse seeks to capture longer term trends (e.g. 200 days), Aspect seeks to capture medium term trends (e.g. 90 days).

Among the universe of medium term trend followers, Cliffwater recommends Aspect. Our recommendation is based on the following three reasons. First, Aspect has long-standing experience in developing and running trend following strategies with a history dating back three decades to the founding of AHL. Out of all the traditional long-standing trend followers, Aspect is one of the few to carve out its pure trend product to be offered as a stand-alone product with a flat management fee. Second, Aspect trades in a broad universe of markets providing greater opportunity to effectuate its strategy. Third, the Core Diversified trend strategy is the firm's primary investment strategy utilizing the focus of its staff of investment researchers.