



State of Rhode Island
Office of the General Treasurer

Aristeia Partners, L.P. (“Aristeia”)
Absolute Return
December 9, 2020

RECOMMENDATION

Approve \$40 million to Aristeia Partners, L.P. Aristeia is a dedicated market neutral fund in which Staff and Cliffwater are recommending to invest the proceeds from Winton. The Fund has consistently generated strong returns, both in absolute terms and relative to strategy peers and has an established track record and strong institutional investor base. Adding Aristeia to the Absolute Return portfolio provides both manager and strategy diversification, more closely aligns the Absolute Portfolio with Cliffwater’s Conservative Model Portfolio, and helps the Absolute Return portfolio achieve its goals of low equity beta and correlation, equity downside protection, and strong alpha generation.

SUMMARY DETAILS

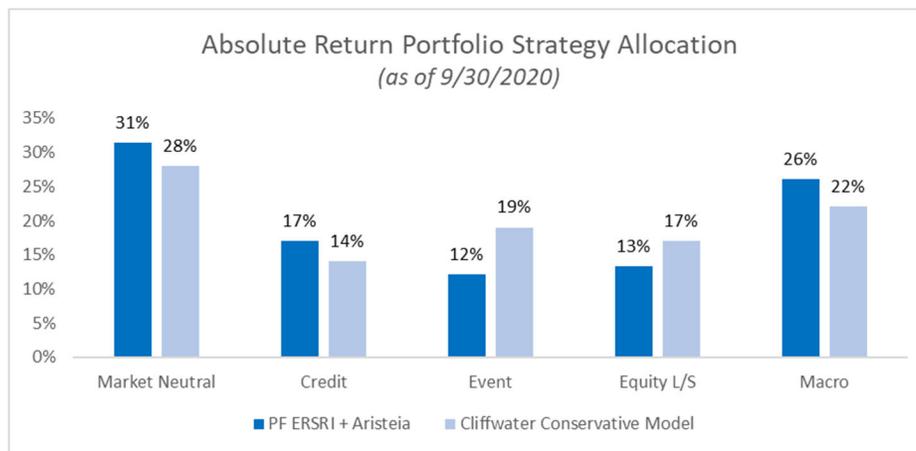
Firm Name	Aristeia Capital
Fund Name	Aristeia Partners, L.P.
Strategy Type	Market Neutral - Credit Relative Value
ERSRI Asset Class	Absolute Return
ERSRI Asset Class Target Allocation	6.5%
Firm AUM	\$4.3B as of 11/27/2020
Master Fund AUM	\$3.7B as of 11/27/2020
Fund Inception	August 1997
Fees	Management: 1.0% Performance: 20.0%
Liquidity	Quarterly (60 days’ notice)
Fund-Level Gate	12.5% quarterly for max of 5 quarters

ABSOLUTE RETURN PORTFOLIO FIT

Aristeia meets the three key goals of the Absolute Return bucket:

- 1. LOW EQUITY BETA/CORRELATION:** Over the 10-years ended 10/31/2020, Aristeia’s beta and correlation to the MSCI ACWI have been 0.14 and 0.41, respectively.
- 2. EQUITY MARKET DOWNSIDE PROTECTION:** Over the 10-years ended 10/31/2020, Aristeia’s downside capture to the MSCI ACWI Net TR Index has been -2.39%.
- 3. GOOD ALPHA GENERATION:** Over the 10-years ended 10/31/2020, Aristeia achieved an annualized alpha of 5.11% relative the MSCI ACWI.

With respect to strategic fit, Aristeia is classified as a Market Neutral fund. While multi-strategy managers in the Absolute Return portfolio have Market Neutral exposures, the only dedicated Market Neutral fund in the portfolio is Capula GRV Ltd. Over the last 10-years ended 10/31/2020, Aristeia has experienced a realized correlation of -0.19 to Capula GRV Ltd. and it should provide diversification within the Market Neutral category.



ORGANIZATION

HISTORY: Aristeia Capital was founded in 1997 by Kevin Toner, Robert Lynch, and Anthony Frascella. William Techar joined in 2001. Mr. Toner retired in 2018 but he had not been directly involved in portfolio management since 2001.

TEAM: Mr. Frascella and Mr. Techar serve as co-CIOs, while Mr. Lynch serves as Chief Risk Officer. The firm currently has 52 employees, of which 18 are investment professionals with an average 16 years of experience.

OWNERSHIP AND PROPRIETARY CAPITAL: Aristeia Capital is entirely employee owned. Firm employee capital currently makes up approximately 8.4% of Firm capital and is invested alongside L.P. capital.

STRATEGY

Aristeia can be characterized as a multi-strategy relative value fund with a focus on corporate credit. The fund allocates risk capital among several sub-strategies using a bottom-up approach relying on deep fundamental research on issuers, terms, and catalysts. These sub-strategies can be broadly divided into Special Situations (SS) and Non-SS, which is primarily convertible relative value. SS strategies include high yield long/short, capital structure arbitrage, bankruptcy, junior financial securities, and hedged warrants. Currently, SS strategies make up approximately three quarters of long market value. Aristeia aims to provide consistent alpha regardless of the credit spread environment.

INVESTMENT PROCESS

Aristeia combines deep fundamental analysis with a 23-year old proprietary portfolio management and risk management system (HAL). Analysts use HAL as a systematic screen to create a “hotlist” of investment candidates based on financials, capital structure data, and security terms. HAL is also used for valuation and price tracking to determine the relative attractiveness of opportunities. Aristeia’s analysts are credit generalists that focus on 2-3 industries each. The analysts perform extensive bottom-up research of issuers to determine which sub-strategy to pursue.

RISK MANAGEMENT

CRO Robert Lynch heads up an independent group overseeing portfolio risk. The team uses its proprietary technology platform, HAL, to monitor exposures and sensitivities. HAL produces a daily eighty-page risk package used to analyze both investment and operational risks. The majority of strategy risk comes from credit, which is often measured using the proprietary stress test “enhanced 30% spread widening” to estimate how a security or portfolio may react to credit spreads widening by 30% paired with expected correlated cross-market effects. Aristeia extensively hedges non-credit risk, including interest rates, foreign currencies, and commodities (since 2016).

PERFORMANCE

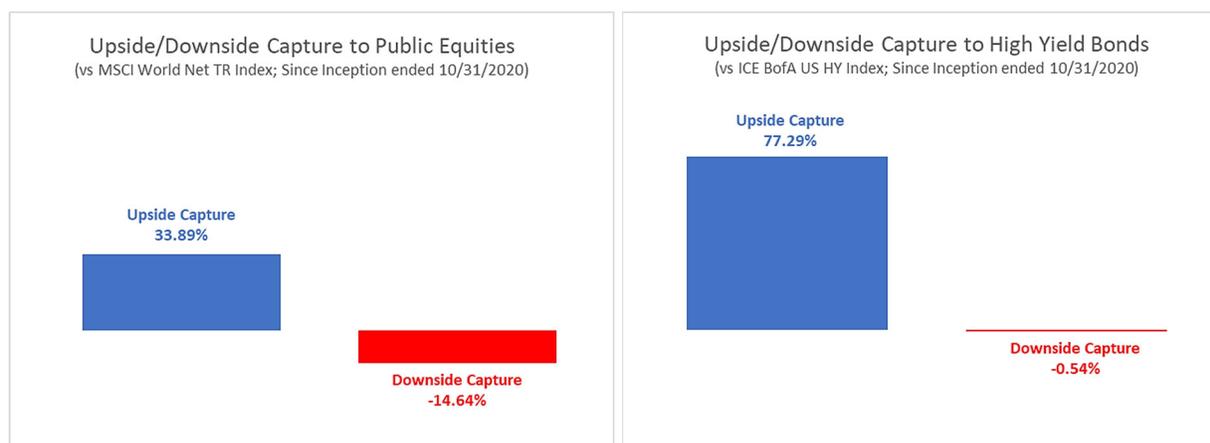
Aristeia has outperformed both the HFRI Relative Value: Multi-Strategy and Convertible Arbitrage indexes for the trailing 10-year period ended October 31, 2020. The fund has outperformed the MSCI World Net Index year to date after a limited -4.3% drawdown in February and March of 2020 was followed by the fund’s strongest consecutive quarters since the rebound from the global financial crisis. The fund has exhibited meaningful upside capture and negative downside capture relative to both global equities and US high yield credit.

Returns for periods greater than 1 year are annualized

<i>as of 10/31/2020</i>	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception
Aristeia Partners, L.P.	14.0%	16.2%	9.5%	8.7%	6.2%	11.7%
HFRI RV: Multi-Strategy Index	2.7%	4.5%	2.8%	3.5%	3.7%	4.9%
HFRI RV: FI Convert. Arb. Index	6.7%	8.8%	4.7%	5.2%	4.4%	6.4%
HFRI Fund of Funds Comp Index	2.8%	5.4%	2.6%	3.0%	2.8%	3.9%
MSCI World Net Index	-1.4%	4.4%	6.0%	8.1%	8.6%	5.6%
ICE BofA US HY Index	0.2%	2.5%	3.9%	6.1%	6.1%	6.4%

<i>Aristeia Rel. Performance vs.</i>	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception
HFRI RV: Multi-Strategy Index	+11.2%	+11.7%	+6.7%	+5.2%	+2.5%	+6.8%
HFRI RV: FI Convert. Arb. Index	+7.3%	+7.5%	+4.8%	+3.5%	+1.9%	+5.3%
HFRI Fund of Funds Comp Index	+11.2%	+10.8%	+6.9%	+5.7%	+3.5%	+7.8%
MSCI World Net Index	+15.4%	+11.9%	+3.5%	+0.6%	-2.4%	+6.1%
ICE BofA US HY Index	+13.8%	+13.7%	+5.7%	+2.6%	+0.2%	+5.3%

Returns for periods greater than 1 year are annualized



Note: Negative downside capture means the fund earns a positive return when index performance is negative.

MERITS:

Aristeia's diversified relative value approach positions it well to consistently generate alpha across credit cycles. The fund has a long track record and a demonstrated ability to adapt to an evolving opportunity set. Aristeia invests through several corporate credit sub-strategies to which the Absolute Return portfolio has limited exposure, including convertible arbitrage and high yield L/S. The team is well seasoned with strong fundamental research capabilities supported by a robust proprietary technological backbone. Two of Aristeia's founders remain strongly involved and its other co-CIO has been with the fund for almost two decades. The fund has continued to improve its risk processes, most recently by designating co-founder Robert Lynch as Chief Risk Officer in 2016 to provide greater investment context to the previously primarily quantitative approach.

CONCERNS:

Aristeia uses hedges and its trade structures to limit exposures but it retains some sensitivity to credit market downturns. The fund aims to allocate risk such that its drawdowns are limited to single digits in order to pursue stronger performance over the long-run. Furthermore, while Aristeia's dynamic portfolio allocation has been a key element of its long-term success, at times the fund has suffered from timing as larger sub-strategy allocations experience periods of market distress. We believe these concerns are offset by Aristeia's commitment to continuously evaluating any potential shortcomings in its risk management process and to invest in key personnel and technology that improve its understanding and mitigation of risk exposures. This includes the creation of co-founder Robert Lynch's new role as an independent Chief Risk Officer with final authority on all risk decisions alongside the firm's co-CIOs as well as continued development of Aristeia's risk monitoring systems.