



State of Rhode Island
Office of the General Treasurer

OPEB Plan Strategic Asset Allocation - Staff Recommendation
May-2022

RECOMMENDATION

The recommendation is that the SIC adopt Mix B within the asset allocation set forth in Appendix A below for the OPEB Trust Portfolio (“OPEB”). The proposed changes diversify OPEB’s asset class exposures and recognize its profile as a sizeable portfolio that is well-positioned to benefit from exposures to a variety of institutional quality asset classes.

BACKGROUND

The OPEB Trust was first funded in April of 2011. Since its initial funding, OPEB has grown to approximately \$523 million as of April 30, 2022. OPEB is cash flow positive and has a funded status of 60.1% as of July 1, 2021, with a discount rate of 5%. In its current form, OPEB consists of a simple asset allocation, with 65% of its assets invested in US large cap public equities and 35% in US aggregate bonds.

ALLOCATION ADJUSTMENTS

Upon adoption of the Mix B, the OPEB strategic asset allocation would evolve from a traditional mix of equities and bonds to an institutional-quality asset allocation using the existing ERSRI bucketing framework. The resulting asset allocation adjustments are summarized below:

Public Growth

- Transition from a US-only public equity exposure to a globally diversified public equity allocation
- Reduce public equity exposure in favor of diversifying Private Growth assets

Private Growth

- Establish a Private Growth aggregate asset class that adds exposure to private equity and non-core real estate

Income

- Establish an Income aggregate asset class to add exposure to equity options, liquid credit, emerging markets debt (blended), collateralized loan obligations, and private credit

Inflation Protection

- Establish an Inflation Protection aggregate asset class to add exposure to core real estate and private real assets (ex-real estate)

Volatility Protection

- Reduce US aggregate bond exposure and include Inflation Protection assets

Note: The recommended asset allocation, Mix B, does not include the establishment of a Crisis Protection Class (“CPC”) which is present within the ERSRI portfolio. This reflects OPEB’s positive cash flow status which reduces the need for source of immediate liquidity during times of broader market stress.

Summary

The OPEB plan has the scale to meaningfully invest in additional diversifying asset classes that will markedly increase the plan's expected return without significantly affecting expected volatility. Additionally, drawdown and shortfall risks are further mitigated through the adoption of a broadly diversified asset allocation. Though proposed Mix B increases OPEB liquidity risk, it maintains an appropriate level of exposure to assets with daily/weekly liquidity given the plan's positive cash flow status and level of expected gross outflows.

Appendix A

		OPEB Policy	Mix A (Similar Return)	Mix B (Similar Risk)	Mix C (55% Growth)	Mix D (55% Growth)	Pension
Equity	Global Equity	0%	30%	40%	45%	45%	
	US Large Cap	65%	0%	0%	0%	0%	
	Public Growth	65%	30%	40%	45%	45%	40%
	Private Growth	0%	0%	5%	10%	10%	15%
	TOTAL GROWTH	65%	30%	45%	55%	55%	55%
Income	Equity Options	0.0%	4.0%	4.0%	3.0%	4.0%	
	Liquid Credit	0.0%	4.0%	4.0%	3.0%	4.0%	
	EMD (Blended)	0.0%	4.0%	4.0%	3.0%	4.0%	
	CLOs	0.0%	4.0%	4.0%	3.0%	4.0%	
	Private Credit	0.0%	0.0%	5.0%	4.0%	5.0%	
	TOTAL INCOME	0%	16%	21%	16%	21%	12%
Stability	CPC	0%	0%	0%	0%	0%	10%
	Core Real Estate	0%	4%	4%	4%	4%	
	Private Real Assets (ex-Real Estate)	0%	0%	4%	4%	4%	
	Inflation Protection	0%	4%	8%	8%	8%	8%
	US Aggregate Bond	35%	50%	26%	21%	16%	
	Volatility Protection	35%	50%	26%	21%	16%	15%
	TOTAL STABILITY	35%	54%	34%	29%	24%	33%
		OPEB Policy	Mix A (Similar Return)	Mix B (Similar Risk)	Mix C (55% Growth)	Mix D (55% Growth)	Pension
	Expected Return 10 yrs	4.41%	4.67%	5.59%	5.89%	6.01%	5.82%
	Expected Return 30 yrs	5.79%	5.55%	6.62%	6.97%	7.11%	6.88%
	Standard Dev	11.04%	7.94%	10.92%	12.45%	12.84%	12.69%
	Sharpe Ratio (10 years)	0.18	0.28	0.29	0.28	0.28	0.40