

**Update on Absolute Return Portfolio  
and on Graham Absolute Return Trading**

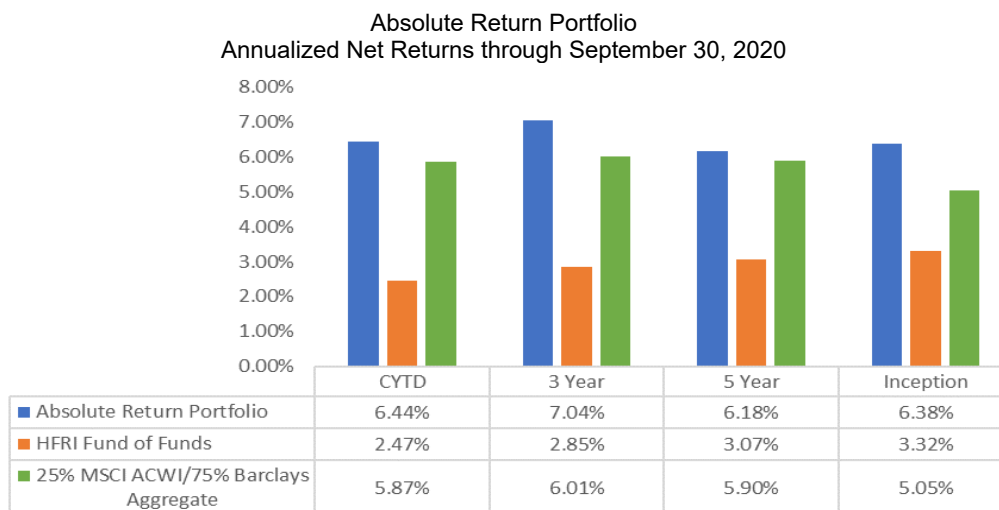
To: RISIC  
 Prepared: October 16, 2020  
 From: Thomas Lynch, CFA, Senior Managing Director

The purpose of this memo is to provide RISIC with an update on the Absolute Return Portfolio (the “Portfolio”) and a review of Graham Absolute Return Trading (“Graham”).

Update on Absolute Return Portfolio

The Portfolio was reviewed at the July SIC meeting. As shown in the exhibit below, the Portfolio continues to perform above its benchmarks for all periods through September 2020.

Exhibit 1.



As approved at the July SIC meeting, the Portfolio redeemed from Winton in September. Staff and Cliffwater are currently evaluating potential substitutes for Winton and will present a recommendation at a later SIC meeting.

Review of Graham

At the July SIC meeting, the SIC requested a further review of Graham due to underperformance.

**Organization:** Graham Capital Management (“GCM”) is the manager of Graham. GCM was founded by Kenneth G. Tropin in 1994 as a proprietary trading company. Originally set up to run systematic macro trend-following strategies, GCM hired discretionary macro traders in 1998 and offered a dedicated discretionary macro vehicle in 2004. Over time, the firm’s quantitative and discretionary strategies have evolved to incorporate multiple time frames and trading methodologies. Today, GCM focuses on macro-oriented systematic and discretionary investment strategies in the global fixed income, currency, commodity, and equity markets. The firm has also created blended portfolios that include a combination of quantitative and discretionary strategies.

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GCM is managed by Mr. Tropin with the assistance of an experienced team of senior investment and business professionals. The investment side is overseen by Pablo Calderini, the Chief Investment Officer, Barry Fox, the Director of Research Operations, and Thomas P. Schneider, the Chief Trader. Meanwhile, the business and operations functions are managed by Robert Murray, the Chief Operating Officer, Brian Douglas, the Chief Financial Officer, and James Medeiros, the Head of Investor Relations. These nine members comprise the Investment Committee. Of the 169 people on GCM's team, 65 are on the investment side and 104 are in operations. The investment team has 30 employees dedicated to the discretionary portfolio, 32 employees dedicated to the systematic trading strategy, and three in risk management.

*Investment Strategy and Process:* The Graham Absolute Return Fund has an 87% overlap with the Graham Discretionary Strategies, which includes all the discretionary portfolio manager teams at the firm. The fund's underlying component strategies trade all major liquid asset classes globally: rates, credit, commodities, currencies, and equity index markets. Trading strategies vary from relative value-focused to directionally-focused, and time periods vary from short-term (intra-day) to long-term (3 month+). The key to the diversification of the Graham Discretionary Strategy is the idiosyncratic nature of each of the 14 underlying strategies' return streams. The Graham Absolute Return Fund's remaining 13% is allocated to quantitative models.

### Cliffwater Analysis

Cliffwater continues to view Graham as an appropriate fund in the Portfolio due to three factors. First, Graham provides unique exposure to the Portfolio. The construction approach for the Portfolio is to utilize investment strategies which in part have low correlation with the equity market. Global macro has historically and is expected to generate low correlation to the equity market. Graham is the only dedicated global macro manager in the Portfolio. As a global macro manager an important alpha source in a period of volatility in interest rates and currencies.

Second, Graham provides statistical diversification to the Portfolio. Over the last five years, Graham has had a cross correlation of monthly returns of 0.19 to the other five managers in the Portfolio.

Third, while global macro has been challenged over the last decade due global monetary control over the direction of interest rates, Graham has performed well relative to other global macro managers. As Exhibit 2 shows, Graham has outperformed the broad universe of macro managers, HFRI Macro Fund Total, over the three, five and since inception period (January 2012) and has outperformed the more specific universe of macro discretionary managers, HFRI Macro Discretionary, over the five and since inception period. Further, Exhibit 3 shows that Graham has performed both universes over the majority of years Graham has been in the Portfolio.

Exhibit 2.

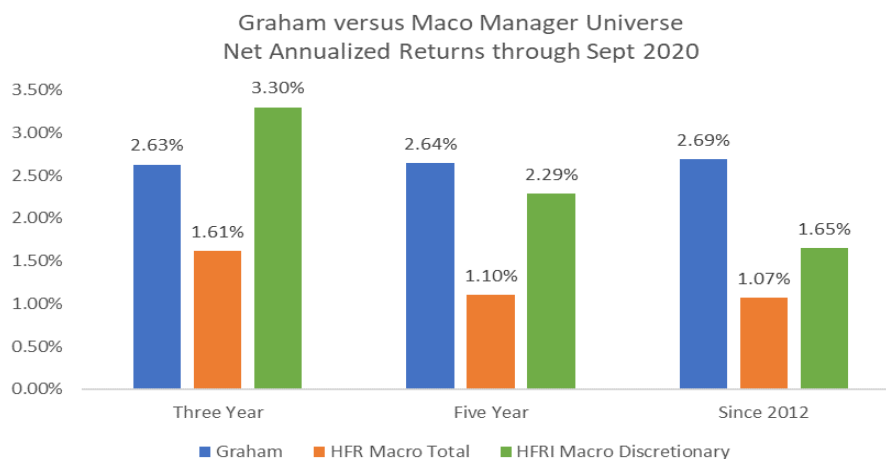
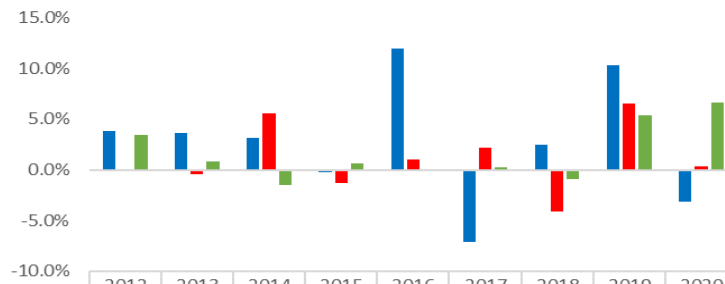


Exhibit 3.

Graham versus Macro Manager Universe  
Calendar Year Net Returns



	2012	2013	2014	2015	2016	2017	2018	2019	2020
■ Graham	3.8%	3.6%	3.2%	-0.3%	12.0%	-7.1%	2.5%	10.3%	-3.1%
■ HFRI Macro Total	-0.1%	-0.4%	5.6%	-1.3%	1.0%	2.2%	-4.1%	6.5%	0.3%
■ HFRI Macro Discretionary	3.4%	0.8%	-1.5%	0.6%	0.0%	0.3%	-0.9%	5.4%	6.7%