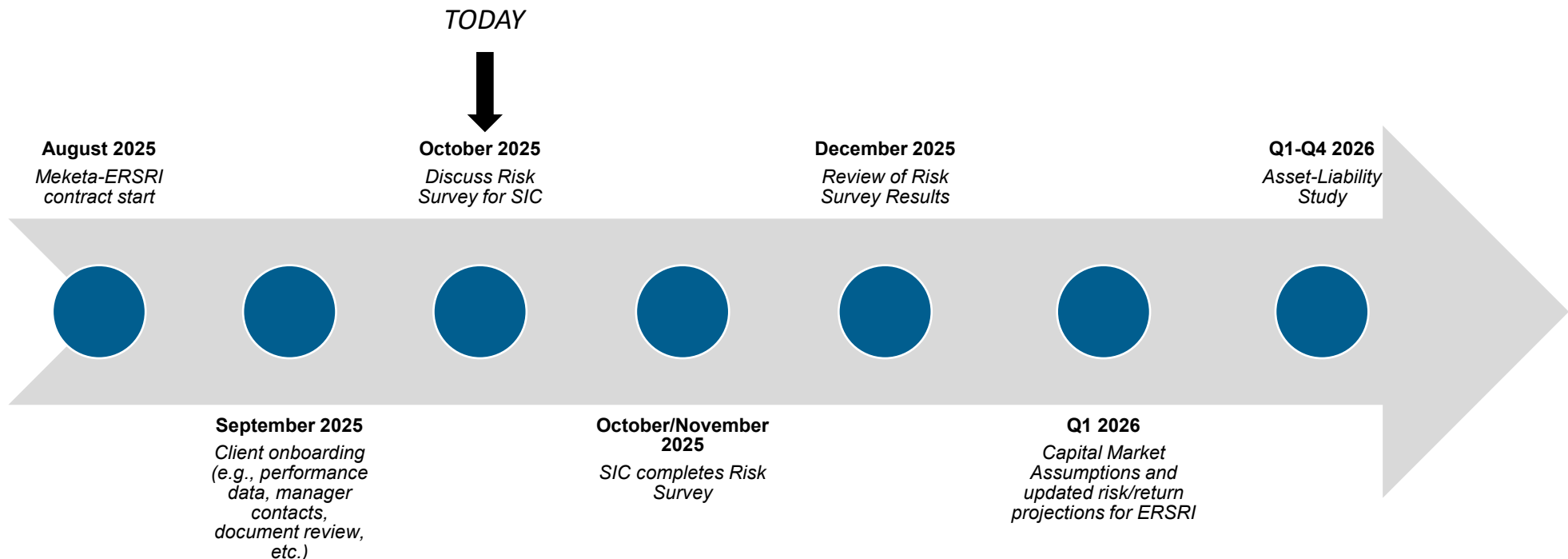


Employees' Retirement System of Rhode Island

October 22, 2025

Risk & Implementation Survey:
Overview of Questions

The Big Picture – Asset Allocation Timeline



- The last ERSRI Asset-Liability Study was completed in 2023.
- For large-scale public pensions, best practices is to conduct a comprehensive asset-liability every 3-5 years, or following material events related to assets (i.e., capital market environment) or liabilities (e.g., system changes).
- **A significant activity for the SIC in 2026 will be the ERSRI Asset-Liability Study.**

Risk and Implementation Survey Overview

- The purpose of this exercise is two-fold:
 1. Develop a baseline for where the SIC currently stands on various risk and implementation considerations.
 2. Utilize the results of the survey as a launching off point for the 2026 Asset-Liability Study.
- This presentation seeks to introduce the survey questions and allows for additional detail/clarification prior to the release of the survey.
- There are four sections to the survey:
 - **Objectives** – In this section, we are trying to determine what individual SIC members believe the top priorities to be, among various important objectives.
 - **Risk Appetite** – These questions explore the respondent's risk tolerance levels.
 - **Risk Mitigation** – These questions focus on specific funding sensitivities, distinct from traditional investment metrics.
 - **Implementation** – This section seeks the perspective on implementing the portfolio allocation over time.
- The survey will be completed in Oct/Nov, including the option for one-on-one sessions with SIC Members and Meketa.
- Survey results will be presented to the SIC in December with a focus on areas of consensus/disagreement.

Risk and Implementation Survey Overview

- For each question, the question will be displayed in a **blue box** with related guidance/clarification provided in an **orange box**.
- For certain questions that are relatively self-explanatory, guidance/clarification may be limited.

Examples

Question XYZ

Guidance/Clarification

Survey Questions

Objectives Section

→ This section consists of one question that asks the SIC to rank the objectives in order of importance.

1. Please rank the following objectives in order of importance with 1 being most important and 5 being least important.

- Achieving a final funding ratio of at least 100% by the end of the funding period (primarily focused on an end goal).
- Maintaining consistent progress towards improving the current funded ratio (primarily focused on an intermediate-term goal).
- Minimizing major total portfolio declines (e.g., greater than -15% in a fiscal year).
- Outperform the median public pension fund over periods of 5-to-10 years.
- Limit the need for plan sponsor (i.e., state/employers) contribution level increases.

→ Different portfolio constructs (particularly level of return and volatility) will alter the funding progress, range of outcomes, and potential contribution rates.

→ Depending on SIC preferences to the above, Staff and Meketa will explain the impacts of those preferences and how the modeling process will incorporate and examine resulting tradeoffs.

Risk Appetite Section

→ This section consists of five questions that seek to ascertain where the SIC stands on their willingness to modify the portfolio's risk posture.

2. To achieve long term goals, should the SIC be taking more, less, or the same amount of investment risk in the ERSRI portfolio?

More Less Same

→ This question simply gauges the SIC's risk tolerance levels. Risk (across multiple dimensions) will be examined relative to liability implications, peer systems, and reference portfolios (e.g., 70% equity / 30% bonds).

Risk Appetite Section

3. In your opinion, what would be considered to be a bad but not necessarily a catastrophic year for the Total Fund?

-4% to -8% -8% to -12% -12% to -16% -16% to -20%

- While volatility is a commonly used risk metric, drawdown experiences (particularly over a horizon of one year) tend to be more reflective of an investor's risk appetite.
- This question provides another avenue for the SIC to display their risk tolerance.

Risk Appetite Section

4. In your opinion, what would be considered to be a bad but not necessarily a catastrophic annualized return over three years for the Total Fund?

0% to -2%

-2% to -4%

-4% to -6%

-6% to -8%

- Sustained periods of underperforming the actuarial rate can have a meaningful impact on contribution levels and the long-term success of ERSRI.
- This question provides another avenue for the SIC to display their risk sensitivity as it relates to a 3-year period of negative annualized returns.

Risk Appetite Section

5. As an SIC member, I am most concerned with which of the following macroeconomic issues (and its impact on ERSRI) over the next 2-5 years?

- Poor economic growth
- High inflation
- Rising interest rates
- Geopolitical conflict
- Capital markets liquidity (e.g., private markets)

- Asset-liability studies are inherently focused on long-term horizons (e.g., 10-30 years).
- Investors tend to focus more on near- and intermediate-term challenges.
- Depending on SIC responses, Staff and Meketa will discuss how the portfolio is or is not positioned for such challenges and how similar historical challenges have or have not impacted long-term results.

Risk Appetite Section

6. Which of the following outcomes is of the greatest concern over the next 10 years?

- A double-digit decline (in returns)
- Not achieving the actuarial rate
- Materially underperforming peers
- A stagnant or declining funded ratio
- Materially underperforming a simple reference portfolio (e.g., 70%/30% equity/bond mix)

- A 10-year horizon begins to enter the “long-term” from the perspective of an asset-liability study.
 - Moreover, this horizon is of a length where results from major decisions begin to manifest.
- SIC answers to this question will assist in developing the various objective functions that will be utilized in the asset-liability modeling process.
 - Objective function = a mathematical representation that the model will seek to maximize or minimize.

Risk Mitigation Section

→ This section consists of four questions that seek to examine specific funding sensitivities, which are distinct from traditional investment metrics.

7. Focusing on the State Employees and Teachers, what is the minimum funded ratio that you would be willing to accept in a market crisis scenario (i.e., rapid deterioration in economic conditions)? 6/30/24 Valuation = ~63%.

40% 45% 50% 55% 60%

→ Funded ratio threshold preferences of the SIC will guide the level of risk within the portfolio as well as the underlying construct (e.g., allocations to non-equity-like assets).

Risk Mitigation Section

8. The Crisis Protection Class (“CPC”) can provide stability in funded ratio level over time.

Strongly Agree Agree Disagree Strongly Disagree

- Defines how the SIC views/understands the CPC’s role with respect to funded status.
- Informs future asset allocation decisions.
- Informs comfortability/familiarity with non-traditional assets and their impact on funded ratio volatility.

Risk Mitigation Section

9. It is straight-forward to understand what can and cannot be included in the CPC class.

Strongly Agree Agree Disagree Strongly Disagree

→ Gauges SIC familiarity with the two underlying asset classes within CPC's current structure.

Risk Mitigation Section

10. The cash-flow position of the ERSRI (e.g., net positive contributions or net negative benefit payments) is an important consideration when constructing an investment portfolio.

Strongly Agree Agree Disagree Strongly Disagree

- Liquidity is an important consideration when determining asset allocation.
- Certain asset allocation decisions (e.g., private markets) may provide additional liquidity considerations.
- Actuarial projections show a meaningful change to ERSRI contribution levels in the mid-2030s.

Implementation Section

- This section consists of seven questions that seek to examine the SIC's perspective on managing the ERSRI portfolio over time.

11. Opportunistic investments have the potential to add value.

Strongly Agree Agree Disagree Strongly Disagree

- For the purposes of this question, “opportunistic investments” are defined as investments in asset classes and/or strategies that fall outside of existing strategic asset class policy targets/ranges. Such investments are typically executed during periods of market dislocations and are expected to be transitory in nature.
- Opportunistic investments are difficult to model in an asset-liability study given their inherent “opportunistic” definition compared to long-term asset class expectations.
- Several peer systems maintain policy optionality (e.g., dedicated “Opportunistic” classes with a 0% target weight) that allows for investments outside of the Strategic Asset Allocation.

Implementation Section

12. High fee strategies are worthwhile if they produce high net-of-fee returns (e.g., a strategy with a 1% management fee and an 8.5% expected net-of-fee return is preferred to a strategy with a 20 basis point management fee and an 8.3% expected net-of-fee return).

Strongly Agree Agree Disagree Strongly Disagree

- Certain asset classes and implementation styles result in varying levels of management fees.
- Understanding the SIC's perspective on fees and potential results will guide potential asset allocation targets, and subsequently, implementation choices.

Implementation Section

13. Illiquid strategies typically return more than similar-risk, liquid strategies (e.g., private equity typically returns more than public equity on a risk-adjusted basis).

Strongly Agree Agree Disagree Strongly Disagree

- Private markets classes are a meaningful component of the ERSRI portfolio.
- This question seeks to explore where the current SIC stands on the topic.

Implementation Section

14. Producing a return pattern that is different than peers is something I care about (given the same long-term return).

Strongly Agree Agree Disagree Strongly Disagree

- The ERSRI portfolio should be constructed based on the overall system's unique dynamics and liabilities, however, peer comparisons are common across the industry.
- What are the SIC's sensitivities to deviating from "the pack"?

Implementation Section

15. Strategies that are designed to hedge equity risk (e.g., insurance-like long volatility or tail risk strategies, etc.) can enhance the risk/return profile of ERSRI over the long-term (as a potential component of CPC).

Strongly Agree Agree Disagree Strongly Disagree

- ERSRI does not currently maintain a dedicated allocation to insurance-like strategies.
- These strategies can produce muted or negative returns in times of market strength, so understanding how comfortable the SIC is with that “cost” for potential protection can inform asset allocation decisions.

Implementation Section

16. Rank the following “benchmarks” in order of what you would prefer to not see ERSRI “underperform” over a 1-5 year horizon.

- Strategic Asset Allocation Policy Benchmark
- A Reference Benchmark (e.g., 70% MSCI ACWI / 30% Bloomberg Aggregate)
- Actuarial Rate
- Peer Pension Systems

- While absolute returns ultimately drive the outcomes of a defined benefit system, benchmarks exist as points of comparison to determine success/shortcomings.
- The question is framed as “underperform” to better align with behavior biases.
- Different benchmarks measure different areas of success/shortcomings.

Implementation Section

17. A globally diversified portfolio (e.g., US, non-US developed, and emerging markets) offers a better forward-looking risk-adjusted portfolio than a US-centric portfolio.

Strongly Agree Agree Disagree Strongly Disagree

- US Equity has outperformed International Equity since the 08'/09' GFC (excluding 2025 YTD).
- This question seeks to assess the SIC's views on regional diversification, particularly within the Public Growth portfolio.

Conclusion and Next Steps

- The results of the survey will serve as a foundation for the asset-liability modeling process.
- They begin to frame the inputs (e.g., classes and constraints) and output goals (e.g., key metrics and characteristics) of the process.
- Several questions within the survey relate to similar concepts. Potential redundancies are intentional in order to obtain more stable and robust results.
- In addition to the provided questions, the survey will also contain an area for additional written commentary by the SIC.
- The survey will be completed in late-October/early-November, including the option for one-on-one sessions with Meketa.
- Survey results will be presented to the SIC in December with a focus on areas of consensus/disagreement.

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