



INVESTMENT ADVISORY SERVICES

Los Angeles • New York

Update on Alternative Investments

Rhode Island Investment Commission Meeting

April 24, 2013

State Pension Allocations to Alternatives

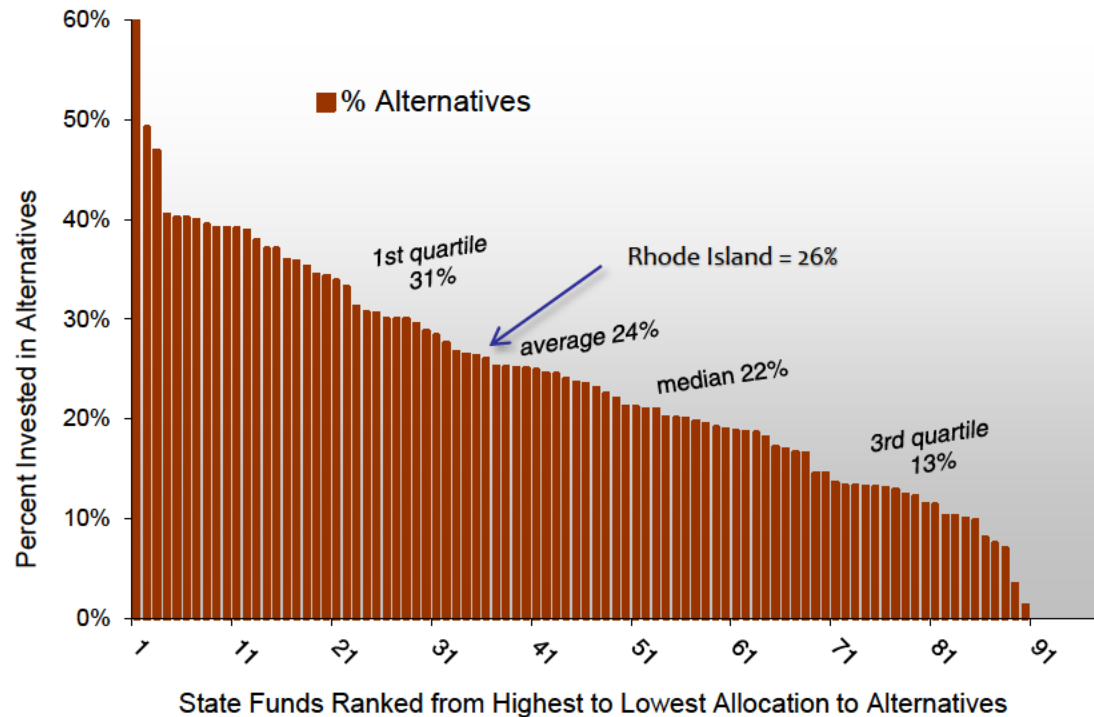
Data

- 97 state pensions reporting asset allocation for fiscal year-end 2012
- Alternatives defined as private equity, real estate, infrastructure, timber, hedge funds, and opportunistic (excluding TIPS)

Findings

- Wide variation in use of alternatives but 90 of 97 states have some exposure to alternatives
- Average alternatives allocation equals 24%
- Rhode Island allocation is 26%, fully implemented
- State pension alternative allocations growing at 2% per year

State Alternative Allocations, June 30, 2012



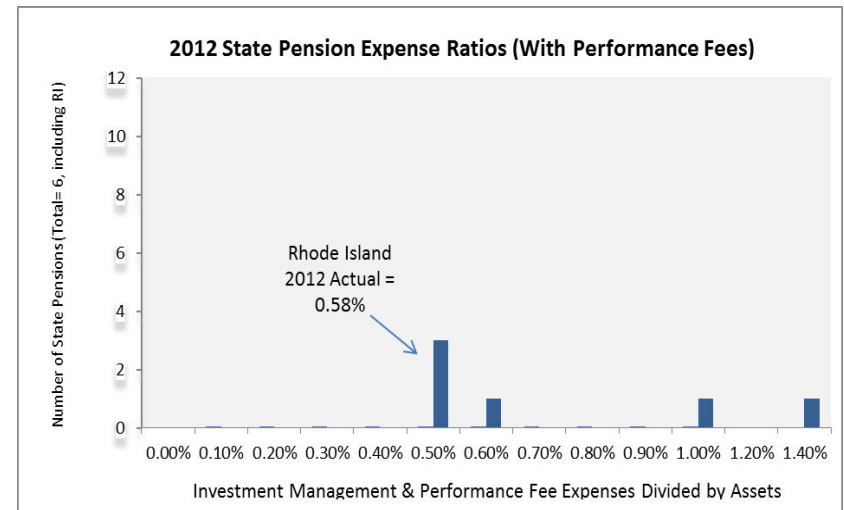
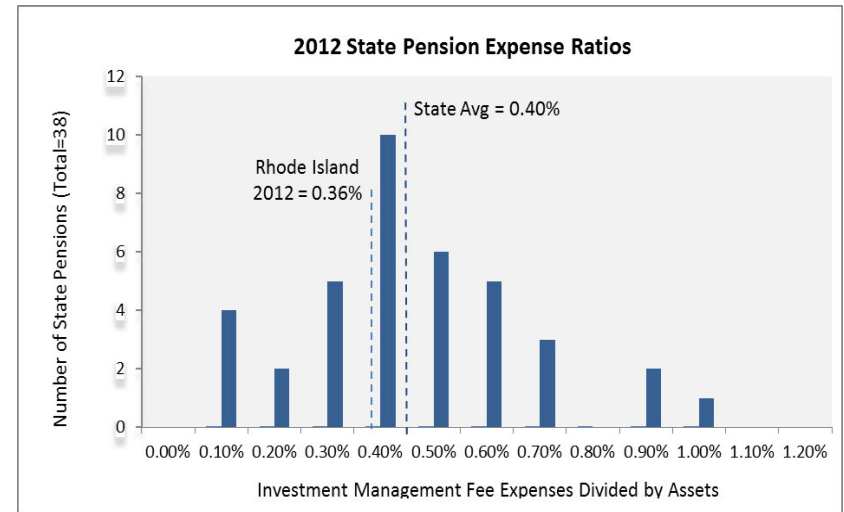
State Pension Expense Ratios

Data:

- 38 of 97 state pensions reporting detailed expense information in FY2012 Comprehensive Annual Financial Reports
- Includes all investment management fees, but excludes performance fees because only 5 disclosed them

Findings:

- Average state pension has a 0.40% expense ratio
- Rhode Island 0.36% 2012 expense ratio below 2012 state fund average
- Rhode Island expense ratio *with* performance fees was 0.58% in fiscal 2012 and is at the low end compared to five other state funds that also disclose performance fees paid



Rhode Island Return and Risk – Focus on Hedge Funds

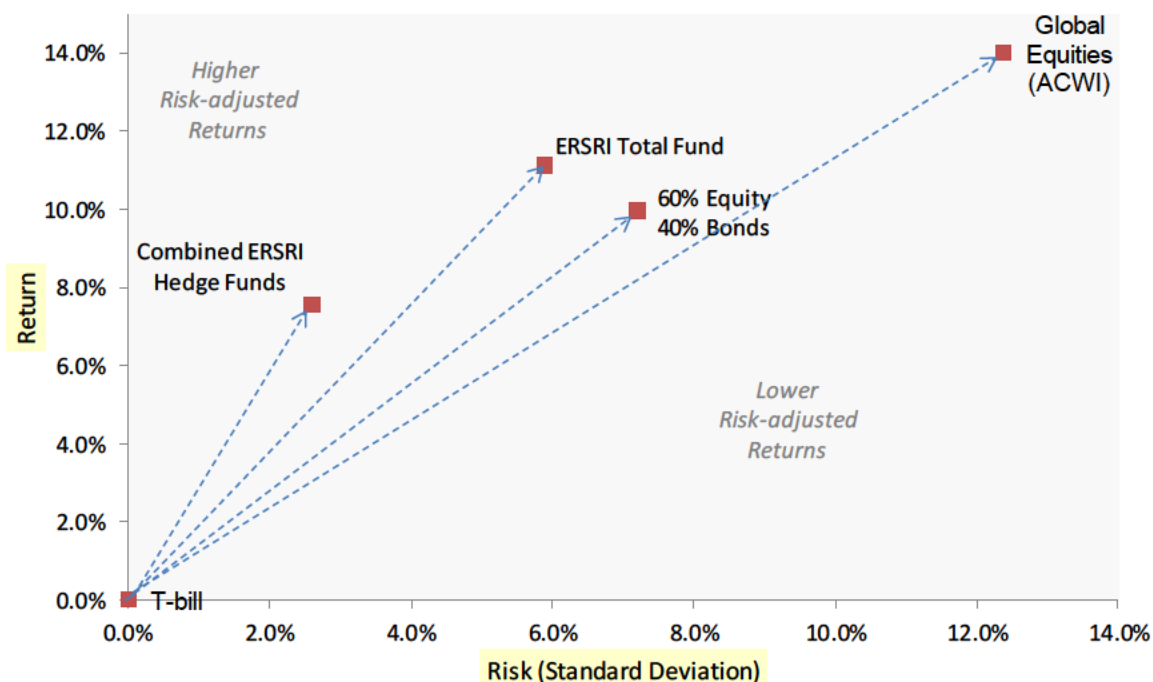
Time period covers 17 months,
overlapping Rhode Island's
experience with hedge funds

Measure performance by risk-
adjusted return, equal to total
net-of-fee return divided by
total risk

Key takeaways:

- RI combined hedge fund portfolio has had higher risk adjusted returns than global equities (the best total return asset class over this period), the RI total portfolio, and a hypothetical 60% stock (ACWI)/40% bond (Barc Aggregate) asset mix
- Hedge fund portfolio behaving as intended

Rhode Island Return and Risk (Standard Deviation)
(Nov 1, 2011 to Mar 31, 2013)



Going Forward with Hedge Funds – Cliffwater Monitoring Process

Weekly Hedge Fund Group Meeting. Every Monday morning our Hedge Fund Research and Operations Groups meet to discuss relevant events of the past week, and to review weekly hedge fund performance estimates. Follow up meetings with managers are scheduled if questions or concerns arise from the meeting.

Monthly Research Analyst Calls. In the third week of every month our research analysts conduct monitoring calls with all client hedge fund investments. Organizational changes, drivers of fund performance, and portfolio exposures are evaluated by the analysts and recorded in our proprietary manager database from which reporting is generated. Our analysts prepare a written summary of the information and insight from each call, which is stored in Backstop, our information database and management system. Contact with hedge funds is not limited to once a month. Cliffwater analysts on average have three calls/meetings with client investment hedge funds per month.

Portfolio Data Collection. Cliffwater analysts oversee the monthly collection of up to 400 data items, mostly describing portfolio characteristics and performance attribution. This information is used in monthly client reports summarizing performance and portfolio information as well as written commentary on individual hedge funds and the overall market.

Quarterly Hedge Fund Review Meeting. Our analysts are responsible for rating manager performance “above”, “at”, or “below” expectations as part of their monitoring responsibilities. Our Hedge Fund Research Group meets formally every quarter to discuss the results of the monthly hedge fund monitoring calls and to discuss the analyst performance ratings. Members of the Operations Team are also present at this meeting to learn of any changes that might impact operations. Every hedge fund is discussed with attention given to variations from expectations.

Watch List. In cases where hedge fund underperformance persists or non-performance factors raise significant concern, Cliffwater puts the hedge fund on its “Watch List.” A written report is prepared discussing why the fund is being placed on Watch List and what is required for removal. An agenda item at every Cliffwater Investment Committee meeting is a progress report on all Watch List funds. In some circumstances, a redemption recommendation is made to the Investment Committee, which formally approves any redemption recommendation.

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Cliffwater Monitoring Process (continued)

Monthly Portfolio Review Meeting. Every month a meeting is held to review each client hedge fund portfolio for possible rebalancing or for the potential addition or redemption of individual hedge funds. The purpose of this meeting, which is attended by both the Research and Client Service Groups, is to evaluate client results against their portfolio objectives.

Fund Development Reports. Unexpected events sometimes occur with hedge funds that might require immediate attention. Examples might include an unexpected change in personnel, organization, or portfolio. In these cases Cliffwater's objective is to communicate the event as soon as possible after its occurrence, generally 1-3 days. Communication is through what we call a Fund Development Report that contains a description of events, our analysis, and a recommendation if warranted.

Annual Re-Underwriting of All Due Diligence. All Cliffwater investment and operational due diligence reports on recommended and client hedge funds are re-underwritten at least annually.