CLIFFWATER LLC

Hedge Fund Portfolio Update

Los Angeles • New York

Prepared for the Rhode Island State Investment Commission

April 23, 2014

Contents

Description of Strategy

Managers investing primarily in equities making active security selection on long and short positions.

Sub-strategies:

- Equity long/short – investing in equities
- Event Driven – investing primarily in equities but also debt while anticipating a particular change or event to occur with a company (e.g. acquisition)

Role in the Total Fund

The equity hedge fund portfolio's role is to increase the Sharpe ratio of the total fund's equity exposure by:

- Over the long term, producing equity returns by combining some equity exposure and significant alpha generation
- Over the short/medium term, reduce the volatility of the equity portfolio by hedging the exposure

Description of Strategy

Managers generally investing in non-equity asset classes or investing with a low net exposure (i.e. low equity beta). Exposures include both long and short positions on interest rates, credit, currency, commodities, and to a limited degree equities.

Sub-strategies:

- Credit– investing in corporate credit instruments taking both long and short positions
- Relative Value– investing in fixed income, on a long and short basis, seeking price discrepancies of instruments with similar fixed income risk
- Macro – investing across asset classes, on a long and short basis, based on fundamental or quantitative judgments
- Multi-strategy- investing across hedge fund strategies

Role in the Total Fund

The absolute return hedge fund portfolio's role is to increase the Sharpe ratio of the total fund and to provide an expected return with low volatility by:

- Over the long term, produce a significant return premium over the risk free rate (e.g. T-bills)
- Over the short/medium term, maintain a low beta or exposure to equity markets
- Over the long term, produce a level of volatility comparable to fixed income

Performance Update as of March 31, 2014

Performance review covers the entire period Rhode Island has been investing in hedge funds (Nov 1, 2011 to Mar 31, 2014)

All returns are net-of-fees and annualized, as are risk measures

Three hedge fund composites are evaluated:

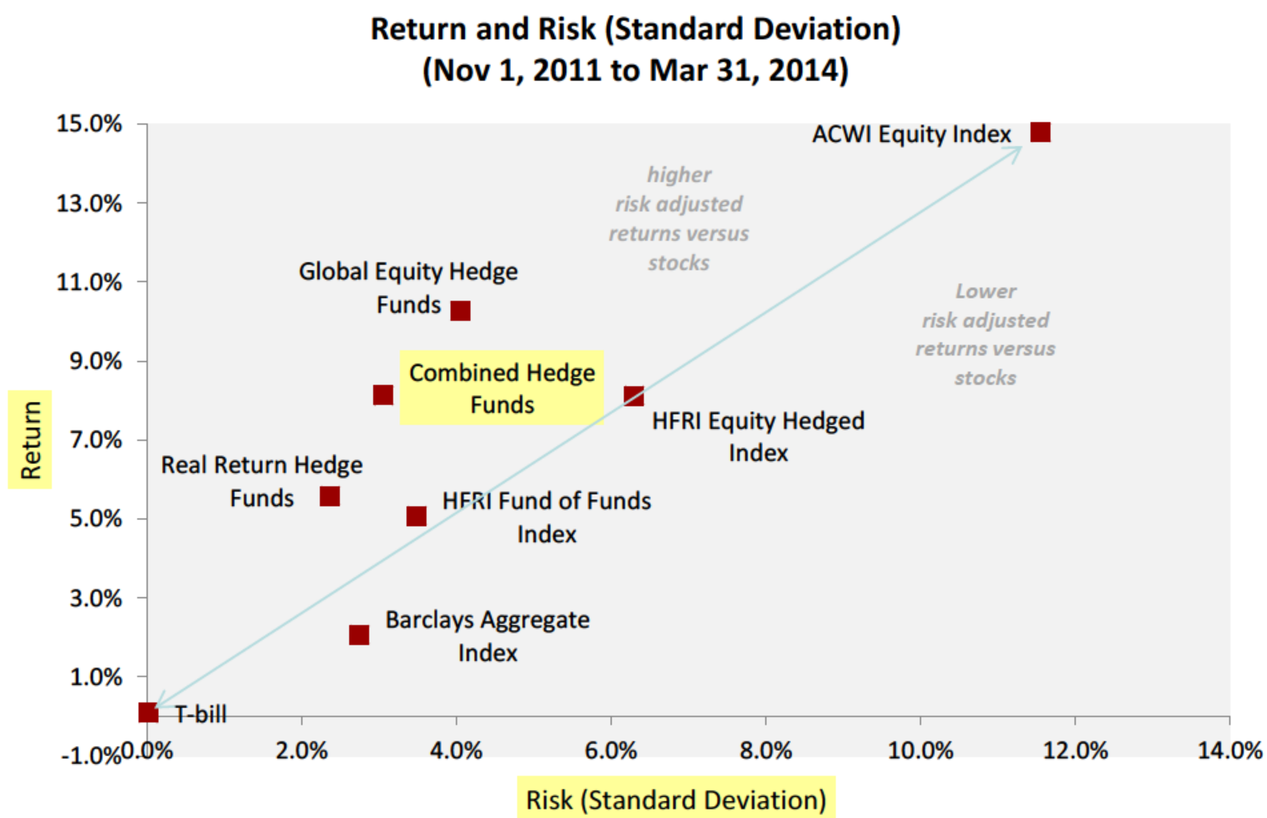
- ***Real Return Hedge Funds***:
  - $514 million invested in 9 hedge funds
  - Target 7% of total assets, within the 11% overall real return allocation
  - Benchmarks – T-bills; HFRI Fund-of-Funds Index
- ***Global Equity Hedge Funds:***
  - $662 million invested in 9 hedge funds
  - Target 8% of total assets, within the 51% overall global equity allocation
  - Benchmarks – MSCI ACWI Index; HFRI Equity Hedged Index
- ***Combined Hedge Funds:***
  - Combines the Real Return and Global Equity Hedge Funds into one composite

Hedge Fund Portfolio Return and Risk: Inception through Mar 31, 2014

	ERSRI Global Equity	ERSRI Real Return	Combined ERSRI Hedge	HFRI Fund of Funds Index	HFRI Equity Hedged Index	ACWI	T-bill	Barc Agg
Total Return	10.27%	5.58%	8.13%	5.07%	8.12%	14.79%	0.08%	2.06%
Total Risk	4.05%	2.37%	3.06%	3.49%	6.30%	11.56%	0.02%	2.75%

Rhode Island Hedge Fund Total Return & Risk

- Rhode Island hedge fund portfolios outperformed HFRI FOF Index over the 29 month period from inception (**8.13%** versus 5.07%, respectively) and had significantly better risk-adjusted returns
- Both the RI Global Equity hedge funds (**10.27%** return) and the Real Return hedge funds (**5.58%** return) earned returns above their respective benchmarks (HFRI Equity Hedged Index and HFRI Fund of Funds Index, respectively) and at a lower level of risk.

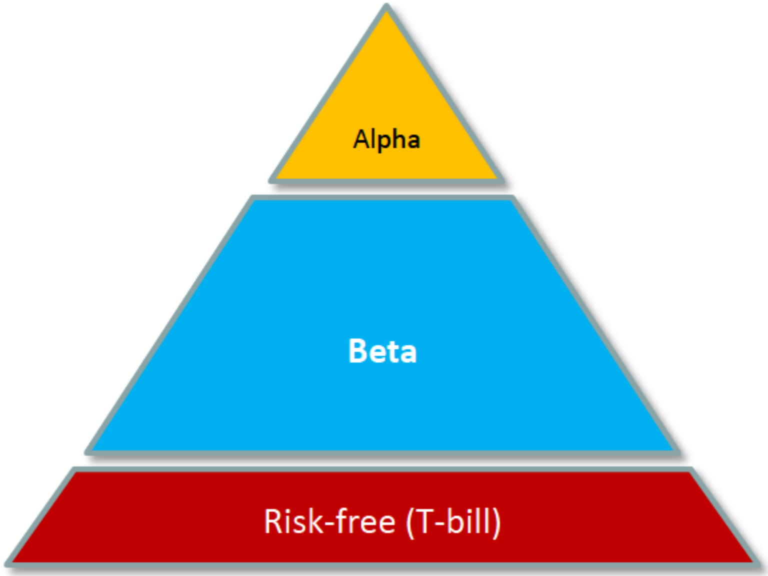


Understanding Performance

All assets have three return components:

- **Risk-free return**: all assets are priced to earn at least the risk free return (T-bill)
- **Beta return**: markets themselves generate investor returns to reward risk taking. These returns can be accessed at little to no fee through index funds and ETFs
- **Alpha return**: active managers try to produce excess return but often competition and fees get in their way

Three Components of Return

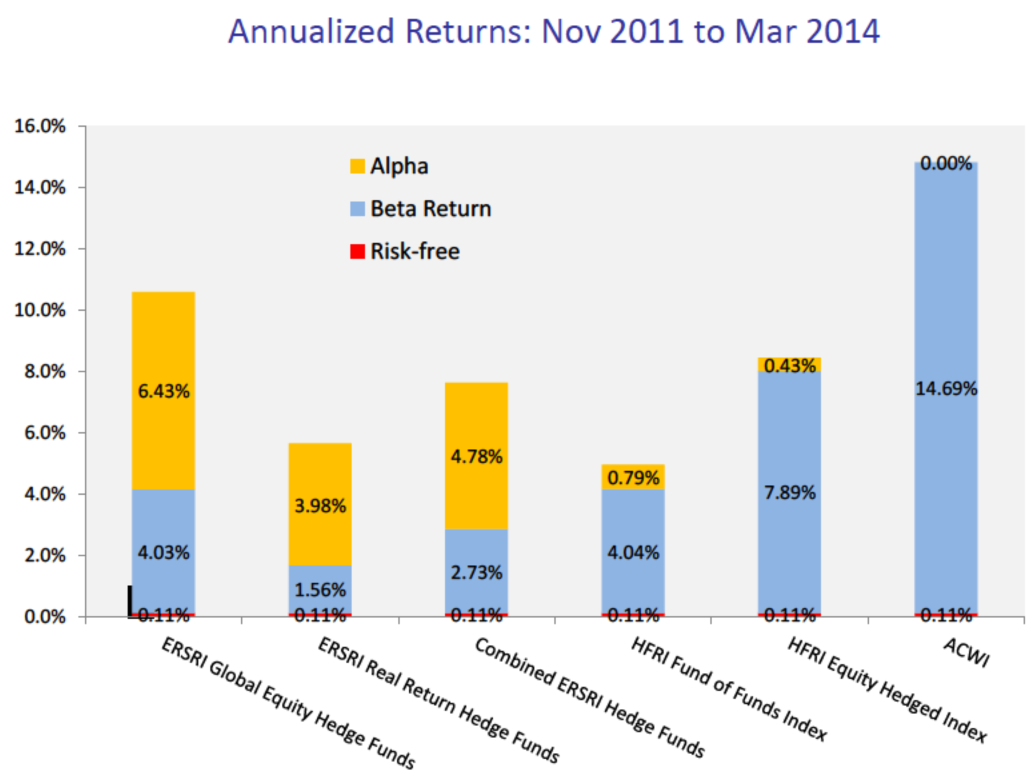


Rhode Island Hedge Fund Return Attribution into Alpha, Beta, and Risk Free

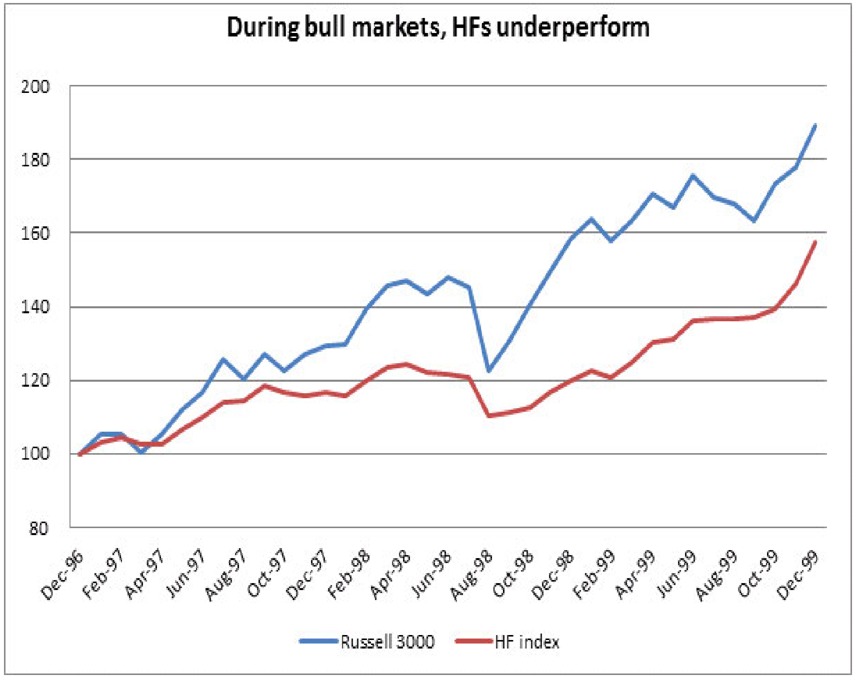
Rhode Island hedge funds combined earned alpha equal to 4.78%, which exceeds Cliffwater's expected combined alpha of 3.75%

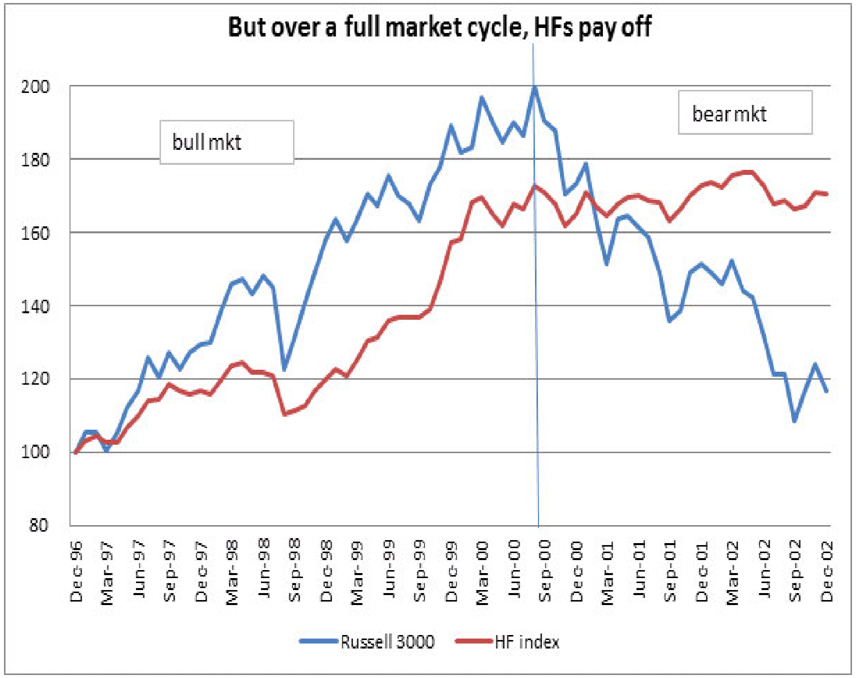
The equity beta for the Global Equity Hedge Fund portfolio equaled 0.26 over the period, well below the 0.51 average beta for equity hedge funds. The Real Return Hedge Fund Portfolio had a beta of 0.10 over this period.

Both the Global Equity and Real Return portfolios produced strong alpha of 6.43% and 3.98%, respectively.



Why Managing Beta Matters





Cliffwater Disclosures

Important Notice

This presentation has been provided to you for the purpose of discussing an investment advisory relationship. The material contained herein is confidential and is intended for one-on-one or small group meetings with qualified, sophisticated, institutional investors. It may not be copied, transmitted, given, or disclosed to any person other than your authorized representatives. This presentation is not an advertisement and is not intended for public use for distribution. This material is not meant to be, nor shall it be construed as, an offer or solicitation of an offer for the purchase or sale of any security.

This presentation was prepared exclusively for information and discussion purposes, and is not meant to be, nor shall it be construed as, an attempt to define all information that may be material to you. All information including opinions or facts expressed herein are current as of the date appearing in this presentation and is subject to change without notice. All information has been obtained from sources believed to be reliable. No representation, warranty, or undertaking, express or implied, is given as to the accuracy or completeness of the information or opinions contained in this presentation. The information and opinions in this presentation do not constitute investment advice. The list of clients included in this presentation is a partial list selected to illustrate size and type and does not represent an endorsement or approval of Cliffwater or the advisory services provided.

This presentation may include sample or pro forma performance. Such information is presented for illustrative purposes only and is based on various assumptions, not all of which are described herein. Such assumptions, data, or projections may have a material impact on the returns shown. Nothing contained in this presentation is, or shall be relied upon as, a representation as to past or future performance, and no assurance, promise, or representation can be made as to actual returns. Past performance does not guarantee future performance.

References to market or composite indices (such as the S&P 500), benchmarks or other measures of relative market performance over a specified period of time (each, an "index") are provided for information only. Reference to an index does not imply that a portfolio will achieve returns, volatility or other results similar to the index. The composition of an index may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility or tracking error targets, all of which are subject to change over time.

- Hedge Fund Research, Inc. ("HFR") is the source and owner of the HFR data contained or reflected in this report and all trademarks related thereto.
- Frank Russell Company ("FRC") is the source and owner of the Russell Index data contained or reflected in this material and all trademarks and copyrights related thereto. The Russell Index data may contain confidential information and unauthorized use, disclosure, copying, dissemination or redistribution is strictly prohibited.
- Thomson Financial Inc. is the owner and/or licensor of the Venture Economics data contained or reflected in this material.