

January 2022

State of Rhode Island State Investment Commission

# Absolute Return Portfolio Review as of December 2021



For Use With Institutional Investors Only - Not For the Retail Public.

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Absolute Return portfolio has achieved its investment objectives over both the short and long term

Most funds in the portfolio have met expectations

Notes on analysis:

1. Actual returns and pro forma returns are shown for the portfolio. The actual portfolio returns represents ERSRI actual hedge fund portfolio since inception in November 2011. This portfolio includes both an equity-oriented portfolio and an absolute return-oriented portfolio. The equity-oriented portfolio redeemed beginning in 2016. The Pro forma return represents what the portfolio would have returned using the current managers, the actual returns of the current managers, and the current manager weights.

2. Alpha and beta calculations based on regression calculations and are relative to MSCI ACWI

Role in the total fund is to reduce total fund risk by reducing return volatility

Portfolio objectives:

- Low equity beta/correlation

- Equity market downside protection

- Good alpha generation

# Performance Evaluation

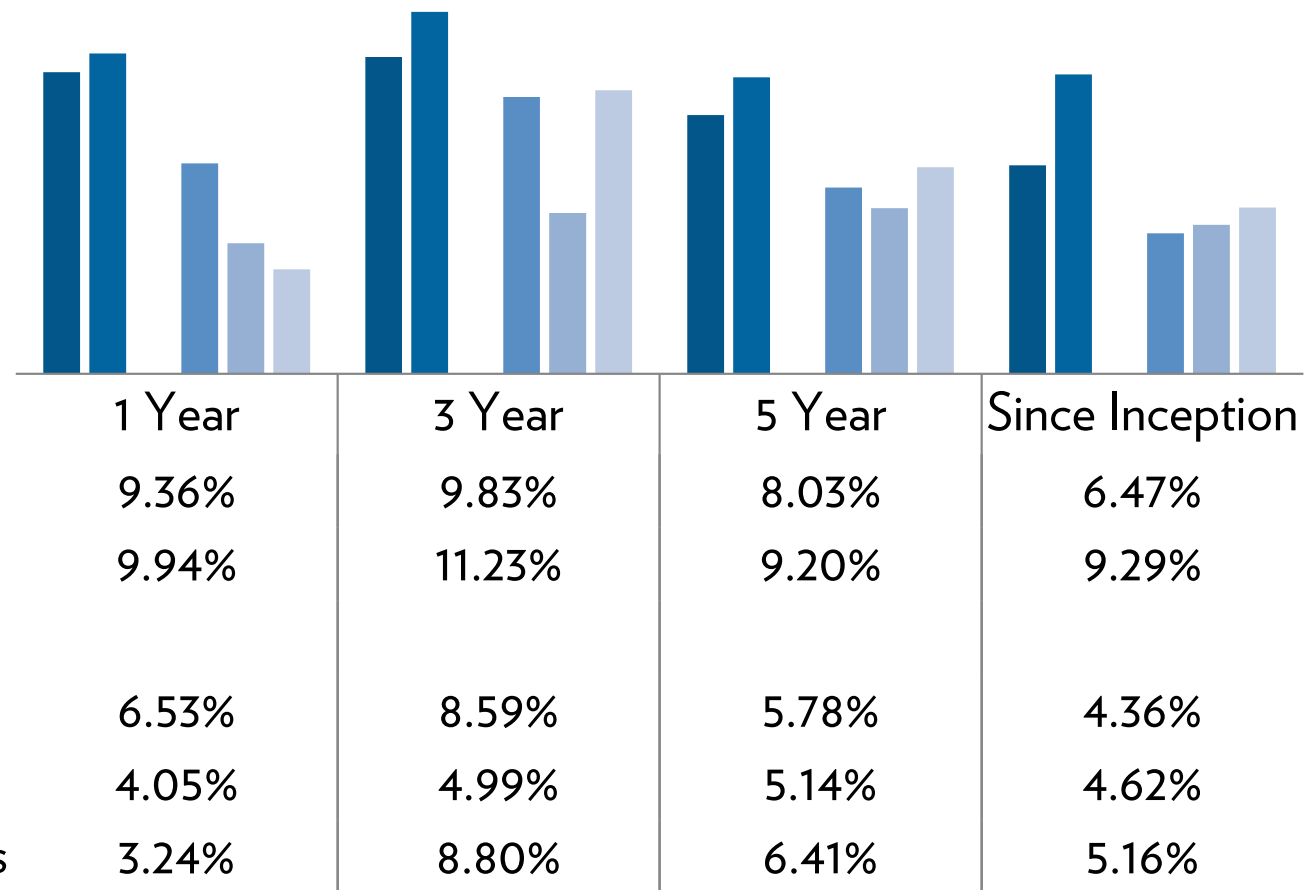
# Performance Evaluation

## Total Return (net of fees)

### Annualized Net Returns through December 2021

Pro Forma and Actual portfolios have outperformed HFRI FoF Index over all periods.

The Pro Forma Portfolio has outperformed the Actual Portfolio in all periods .



■ Actual

■ Pro Forma

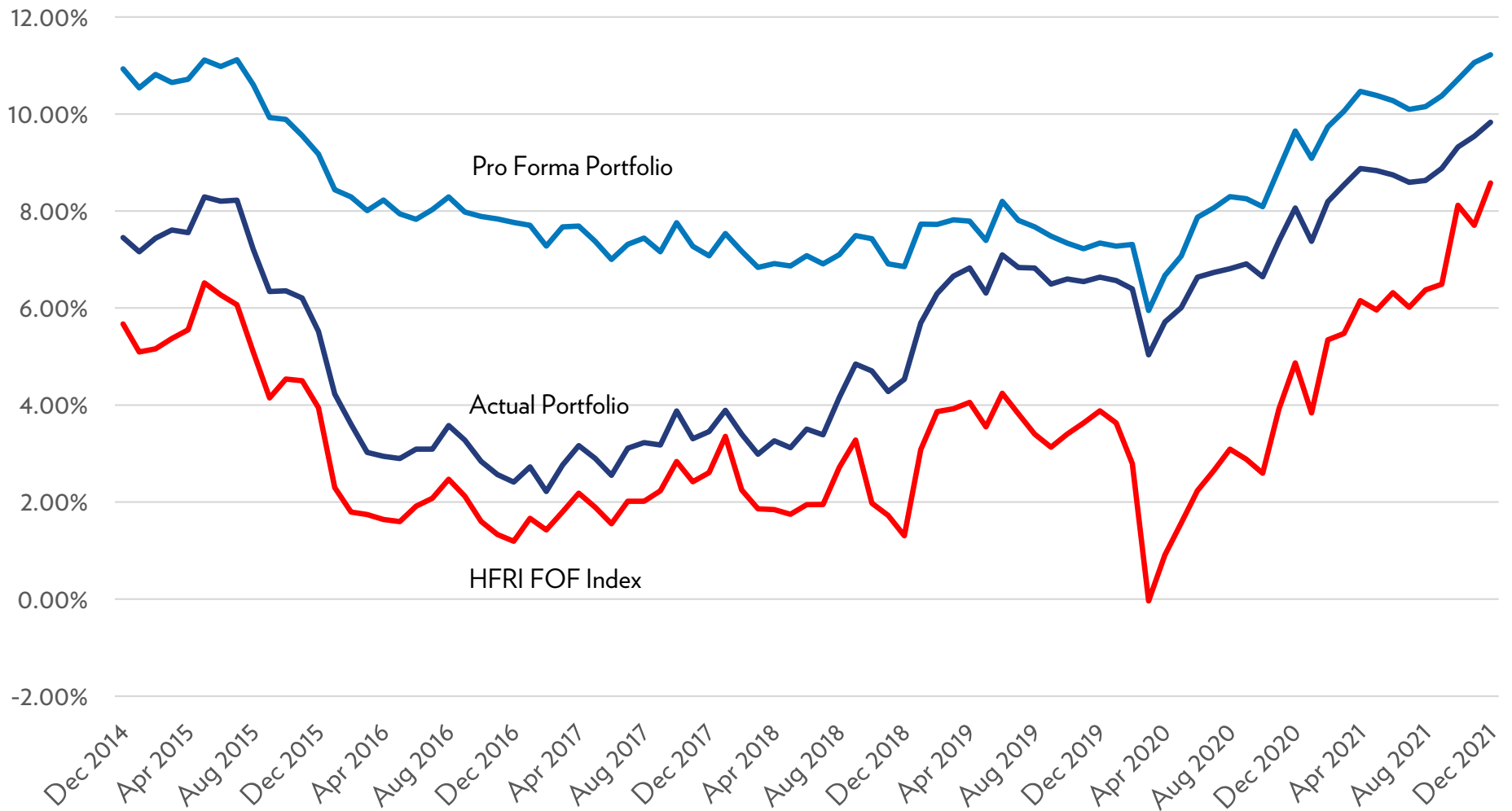
■ HFRI FoF Index

■ T-Bills+4%

■ 75% Bonds/25% Stocks

# Performance Evaluation

Three Year Rolling Total Returns (net of fees since inception through 12/31/21)



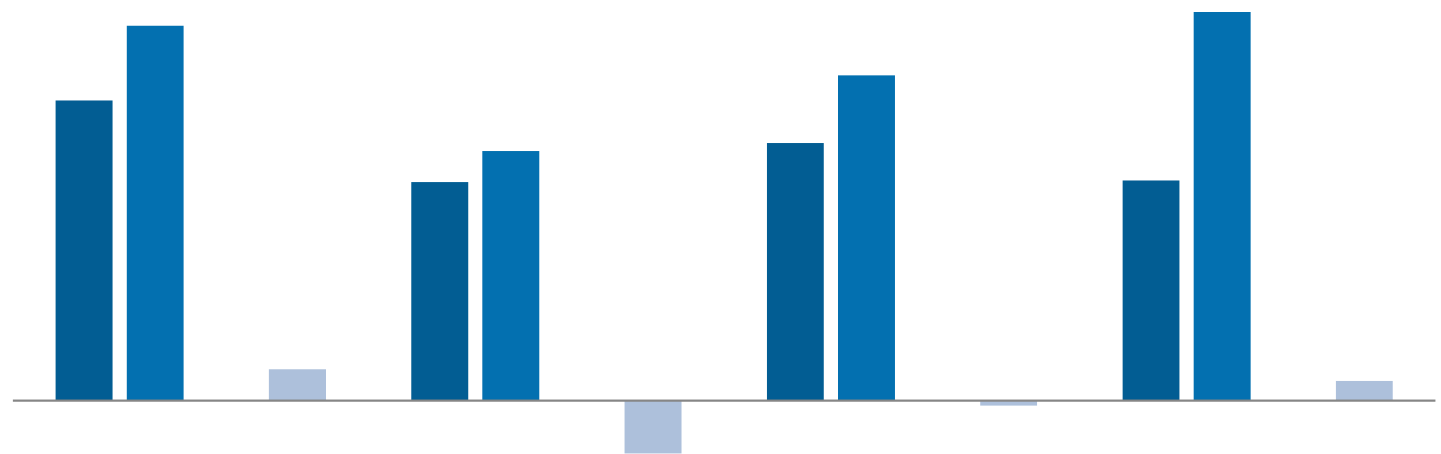
# Performance Evaluation

## Alpha Return (net of fees)

### Annualized Net Returns through December 2021

Pro Forma Portfolio has generated strong alpha of 4.7% or higher over all periods

Actual Portfolio has generated less alpha due to legacy managers but more alpha than benchmark



	1 Year	3 Year	5 Year	Since Inception
■ Actual	5.63%	4.10%	4.83%	4.13%
■ Pro Forma	7.03%	4.68%	6.10%	7.29%
■ HFRI FoF Index	0.59%	-0.99%	-0.09%	0.37%



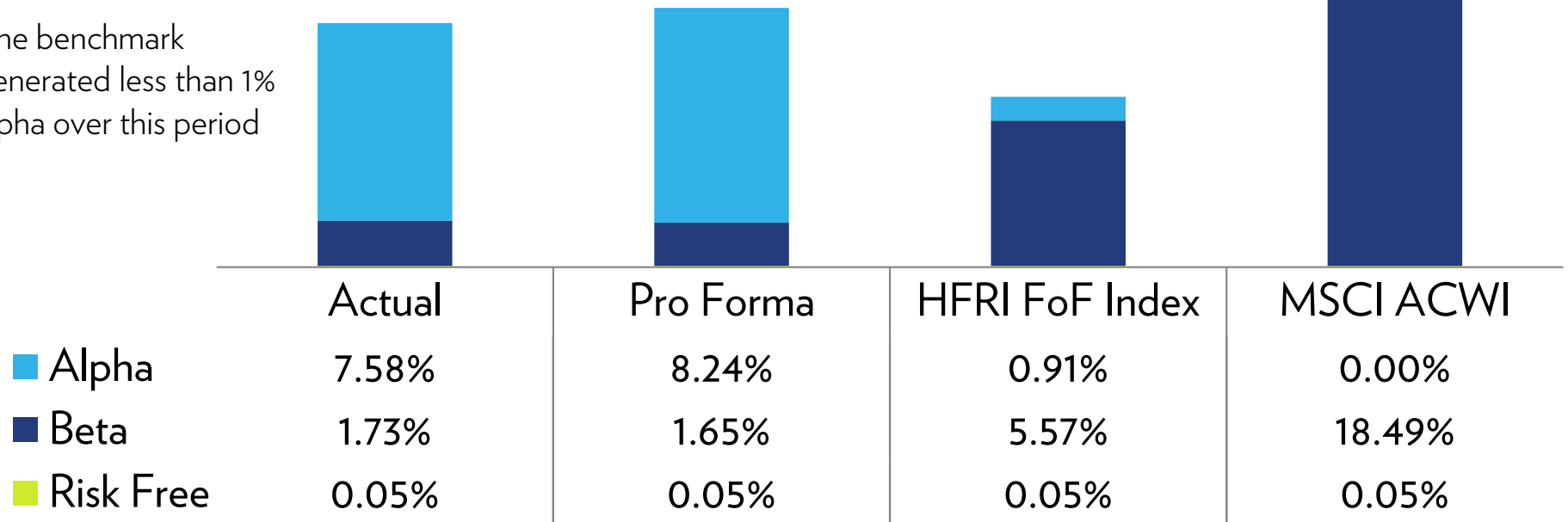
# Performance Evaluation

## Return Attribution – One Year

### Annualized Net Returns through December 2021

83% of the Pro Forma Portfolio's performance has been generated from Alpha

The benchmark generated less than 1% alpha over this period



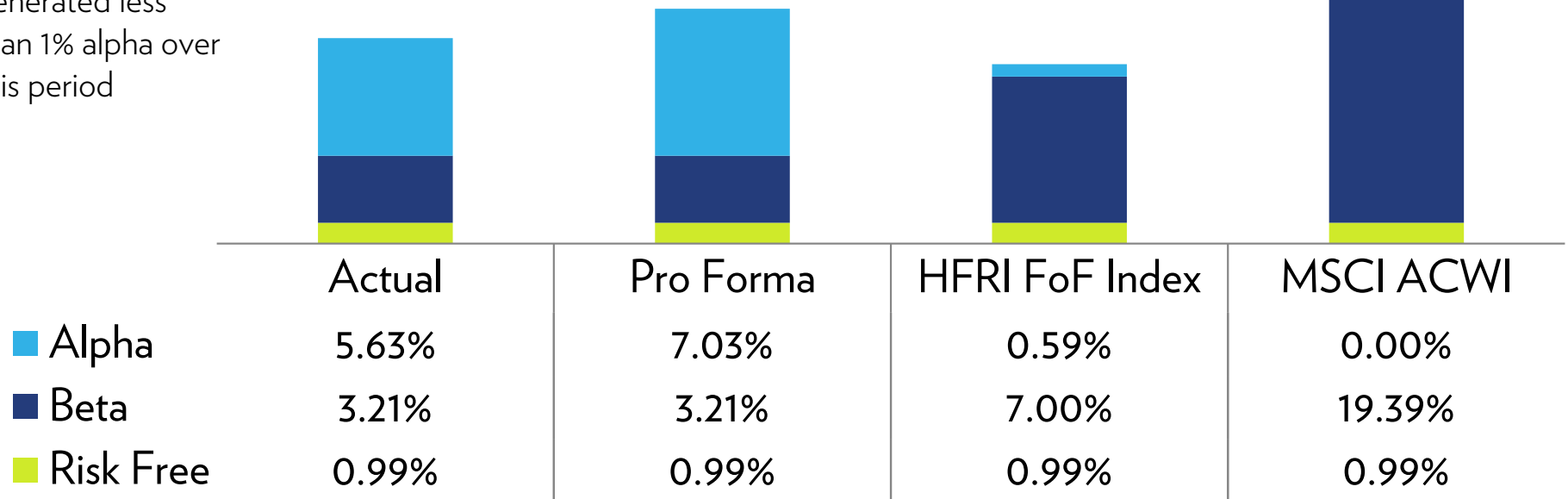
# Performance Evaluation

## Performance Attribution – Three Years

### Annualized Net Returns through December 2021

63% of the Pro Forma Portfolio's performance has been generated from Alpha

The benchmark generated less than 1% alpha over this period

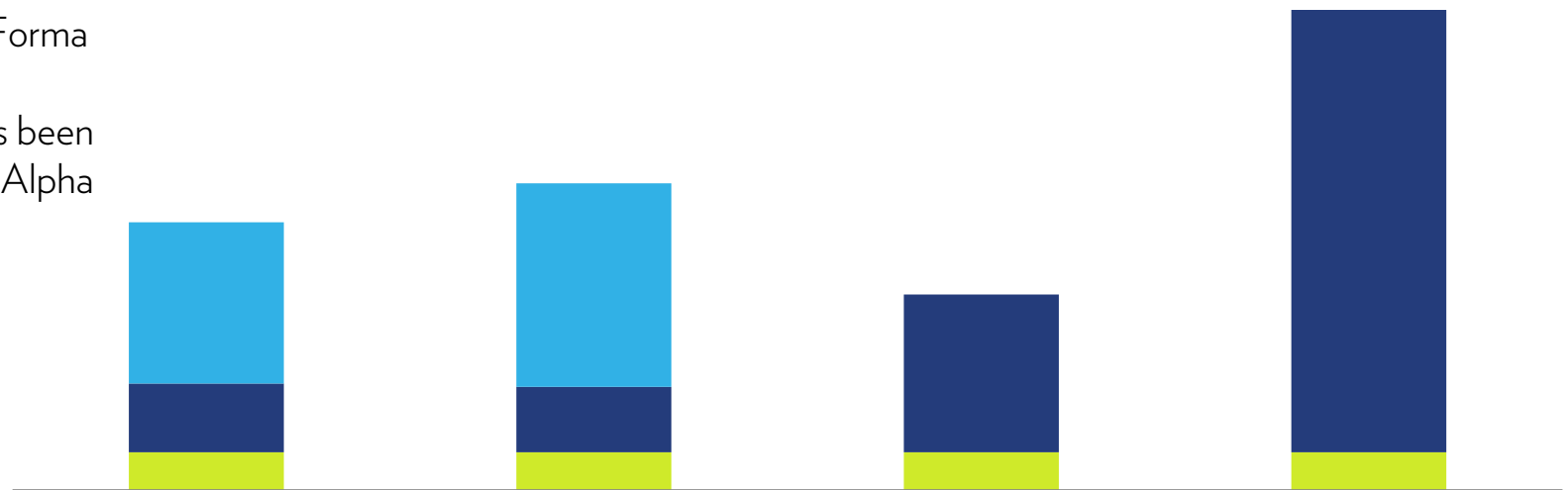


# Performance Evaluation

## Performance Attribution – Five Years

### Annualized Net Returns through December 2021

66% of the Pro Forma Portfolio's performance has been generated from Alpha



■ Alpha

■ Beta

■ Risk Free

Actual

4.83%

2.06%

1.14%

Pro Forma

6.10%

1.96%

1.14%

HFRI FoF Index

-0.09%

4.73%

1.14%

MSCI ACWI

0.00%

13.26%

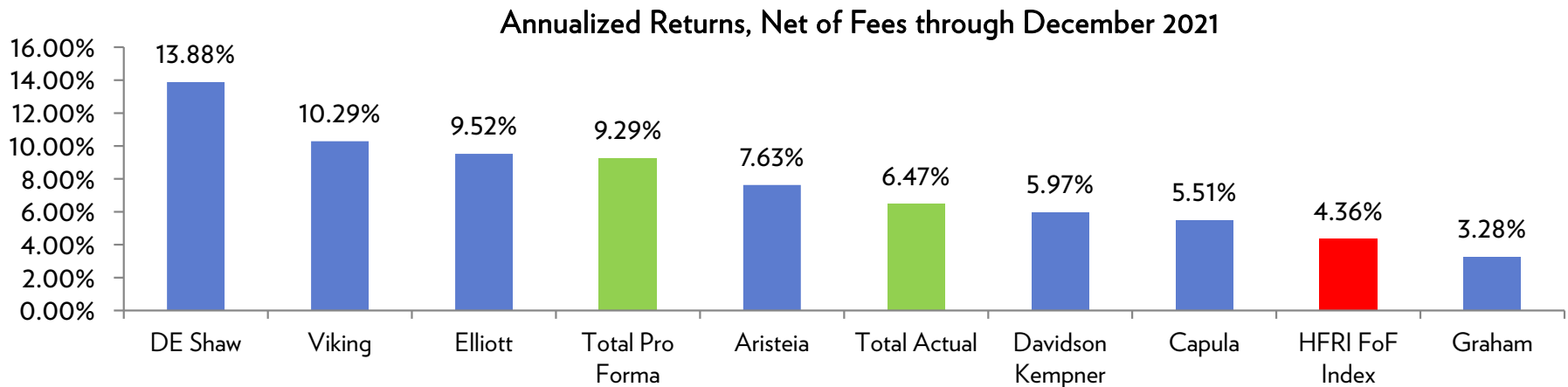
1.14%





# Performance Evaluation

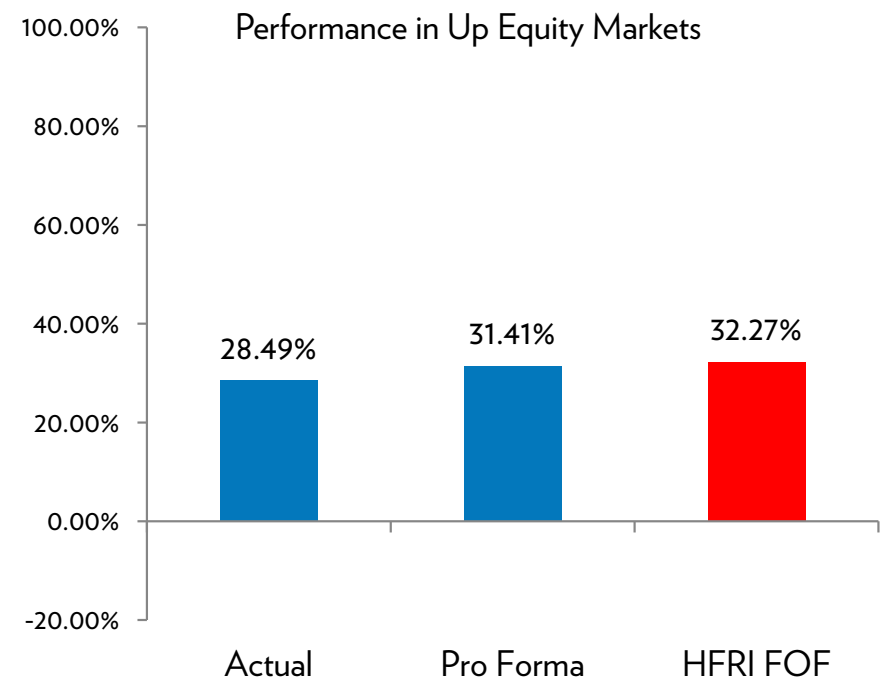
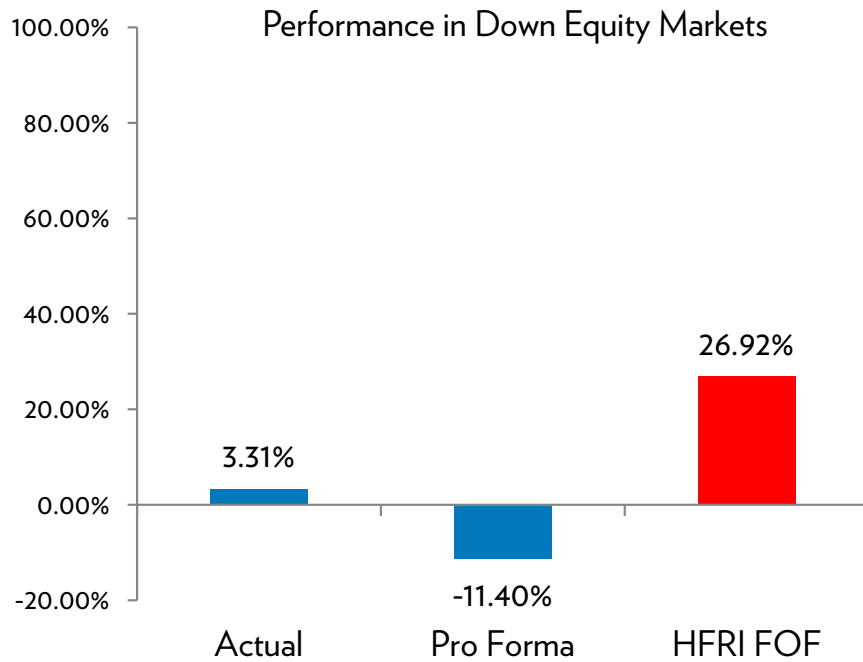
## Manager Performance – Since Inception



	Total Pro			Total	Davidson	HFRI FoF				
Since Inception	DE Shaw	Viking	Elliott	Forma	Aristeia	Actual	Kempner	Capula	Index	Graham
Total Return	13.88%	10.29%	9.52%	9.29%	7.63%	6.47%	5.97%	5.51%	4.36%	3.28%
Total Risk	4.03%	8.34%	3.39%	2.63%	5.02%	3.16%	3.84%	1.77%	4.82%	7.35%
Return/Risk	3.44	1.23	2.81	3.53	1.52	2.05	1.56	3.11	0.90	0.45
Correlation	0.20	0.55	0.24	0.59	0.34	0.66	0.64	(0.23)	0.85	0.39
Beta	0.07	0.35	0.07	0.12	0.14	0.16	0.19	(0.03)	0.32	0.22
Beta Return	0.71%	3.87%	0.71%	1.37%	1.44%	1.73%	2.03%	-0.30%	3.37%	2.47%
Beta Risk	0.88%	4.58%	0.88%	1.61%	1.78%	2.13%	2.50%	-0.35%	4.15%	2.91%
Alpha	12.55%	5.80%	8.19%	7.29%	5.57%	4.13%	3.32%	5.19%	0.37%	0.18%
Alpha Risk	3.93%	6.97%	3.27%	2.08%	4.70%	2.33%	2.91%	1.74%	2.46%	6.76%
Info Ratio*	3.19	0.83	2.50	3.50	1.19	1.77	1.14	2.99	0.15	0.03
Risk-free	0.62%	0.62%	0.62%	0.63%	0.62%	0.62%	0.62%	0.62%	0.62%	0.63%

Note: Inception date for the portfolio is 11/2011. . Not all managers were in the portfolio as of 11/21.

## Downside Protection



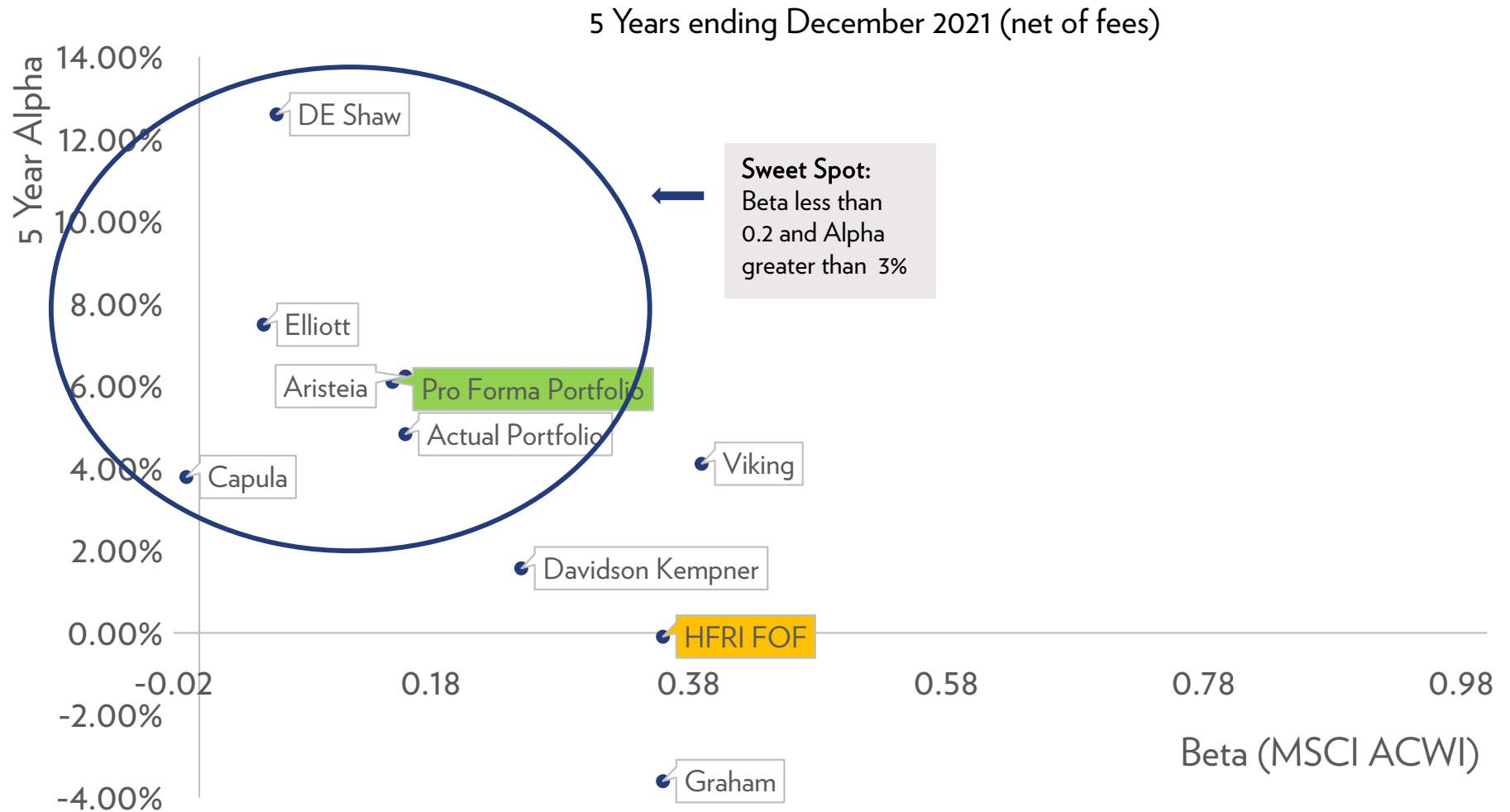
The Pro Forma Portfolio has produced superior downside capture (negative), generating on average positive returns in down equity markets

The Pro Forma Portfolio has produced upside market capture comparable to Actual Portfolio and HFRI Fund of Funds Index

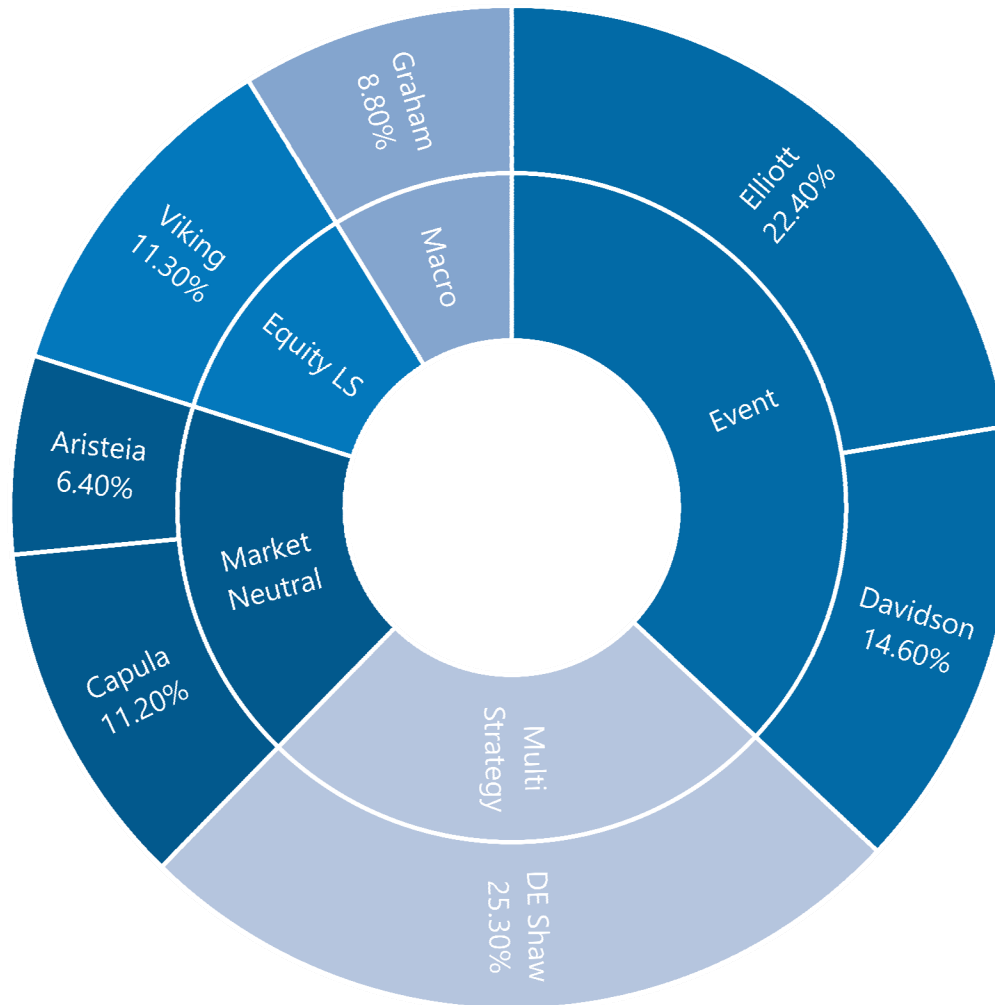
# Portfolio Exposures



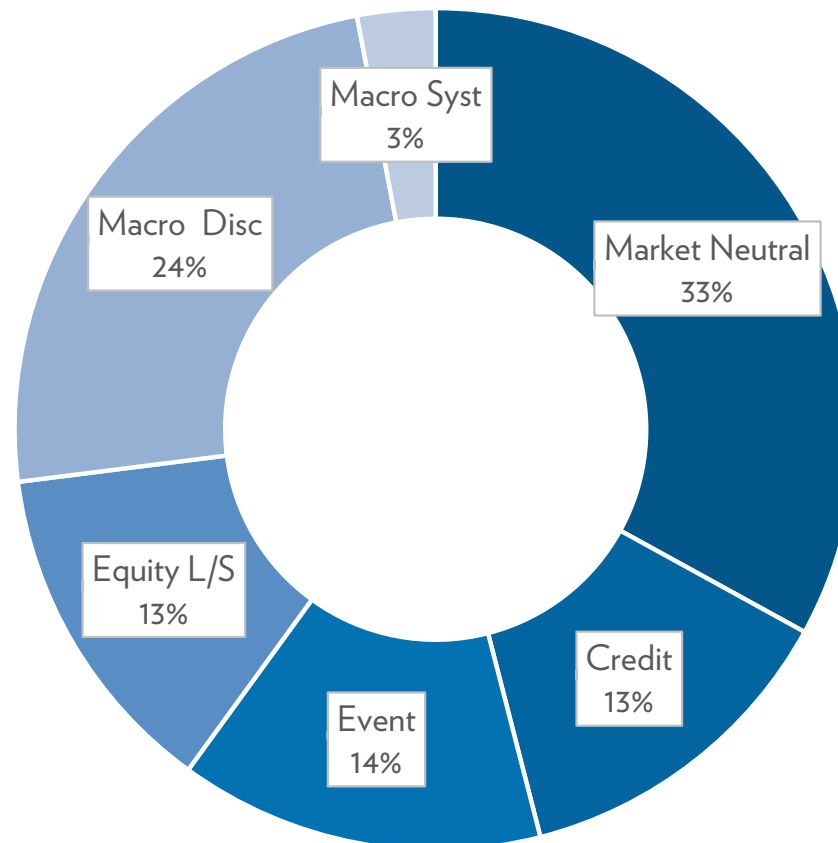
## Beta and Alpha



## Strategy Exposure by Manager Target Strategy Q4 2021

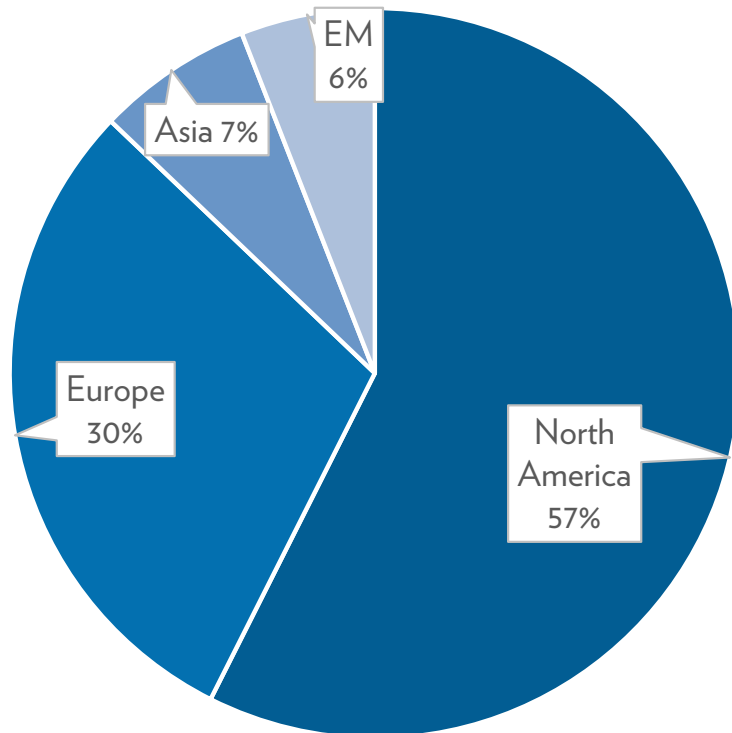


## Strategy Exposures by Manager Positioning Q4 2021

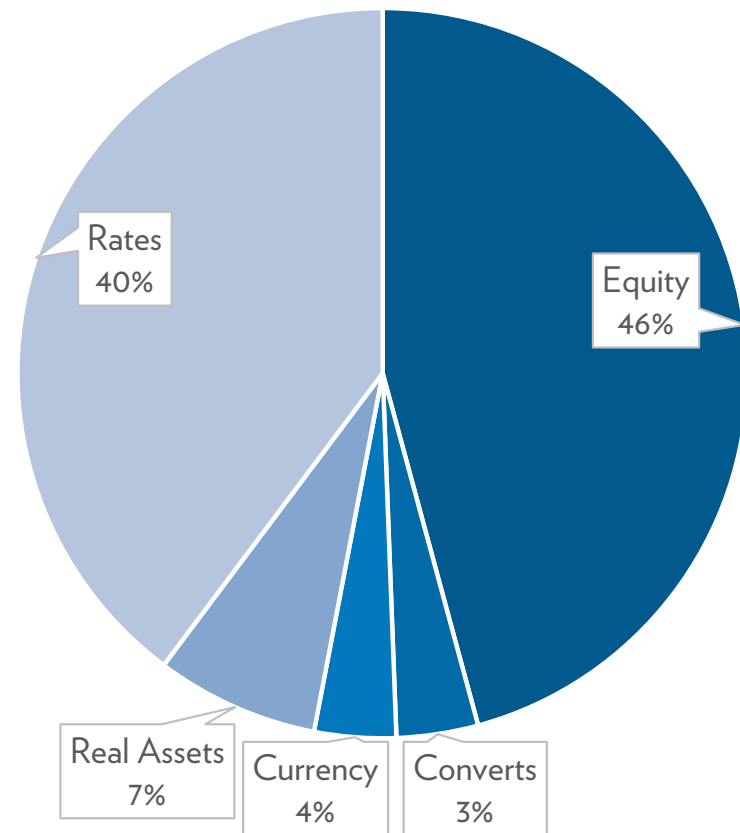


## Portfolio Construction by Manager Positioning Q4 2021

### Geographic Exposure



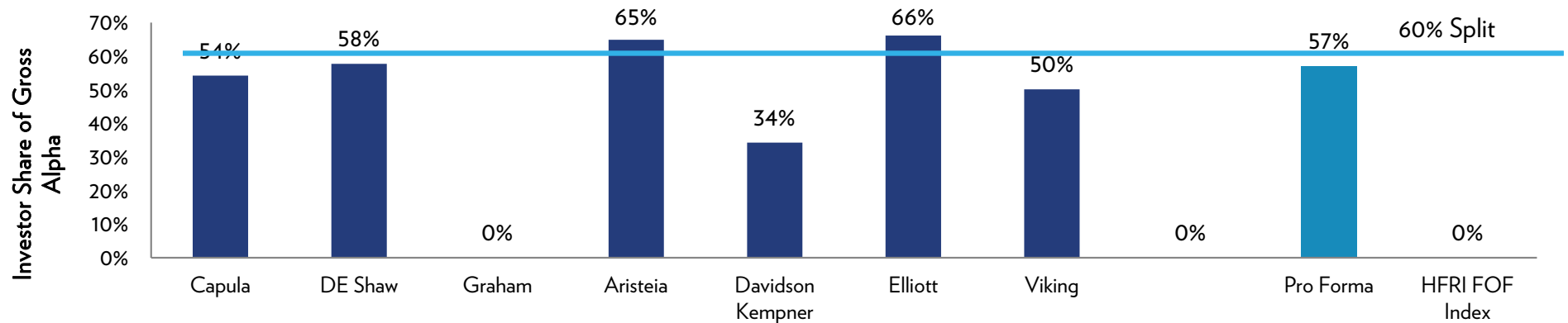
### Asset Type Exposure



# Fees Evaluation

# Fee Evaluation

## Share of Alpha



	Five Year Performance							
	Management Fee	Performance Fee	Net of Fees		Gross of Fees		Gross Alpha Split	
			Total Return	Alpha	Total Return	Alpha	Manager	Investor
Capula	2.00%	20.00%	4.80%	3.79%	8.00%	6.99%	46%	54%
DE Shaw	3.00%	30.00%	14.50%	12.60%	23.72%	21.82%	42%	58%
Graham	1.80%	20.00%	2.17%	-3.76%	4.51%	-1.42%	NA	NA
Aristeia	1.00%	20.00%	9.47%	6.23%	12.84%	9.59%	35%	65%
Davidson Kempner	1.50%	20.00%	6.03%	1.57%	9.04%	4.58%	66%	34%
Elliott	1.50%	20.00%	9.33%	7.49%	13.16%	11.32%	34%	66%
Viking	1.50%	20.00%	10.39%	4.12%	14.49%	8.22%	50%	50%
Total Pro Forma	1.93%	22.55%	9.20%	6.10%	13.81%	10.71%	43%	57%
HFRI FOF Index	1.50%	20.00%	5.78%	-0.09%	8.73%	2.86%	103%	-3%

Note: HFRI FOF fees are assumed at industry norm of 1.50% and 20%. Data through Dec 2021