



State of Rhode Island
Office of the General Treasurer

Absolute Return Portfolio Rebalancing - Staff Recommendation

January-2022

RECOMMENDATION: Approve an investment of \$30 million in Aristeia Partners, L.P (“Aristeia”) to rebalance the Absolute Return portfolio and bring the Absolute Return bucket weight closer to target following a capital return of approximately \$27.2M from D.E. Shaw Composite Fund L.L.C. (“D.E. Shaw”). ERSRI made an initial investment of \$40 million in Aristeia on 12/31/2020 since which time the fund has returned 8.19% net of fees.

STRATEGIC ASSET ALLOCATION RATIONALE

Following asset growth in calendar years 2020 and 2021, D.E. Shaw completed a partial return of capital to external investors in January 2022, including approximately \$27 million to ERSRI. After this action, the Absolute Return portfolio represents approximately 6.26% of Total Plan assets on a pro-forma basis using 12/31/2021 NAVs. Redeploying the returned capital from D.E. Shaw to top-up ERSRI’s investment in Aristeia Partners, L.P. would bring the Absolute Return portfolio to roughly in-line with its 6.29%, closer to the 6.5% target allocation.

ABSOLUTE RETURN PORTFOLIO FIT

Aristeia is a Market Neutral fund a focusing on credit relative value. D.E. Shaw is a Multi-Strategy fund with approximately 31% allocated to Market Neutral, 44% to Macro, 8% to Equity L/S, and 18% to credit as of 11/31/2021. Prior to the capital return, ERSRI’s largest underweight compared to Cliffwater’s low risk model portfolio was to Market Neutral Strategies, with a portfolio weight of 33% compared to 35% for Cliffwater based on underlying fund exposures. Following a rebalance to Aristeia, ERSRI’s allocation to Market Neutral strategies increases to approximately 36%. These weights will naturally vary based on fund NAVs and the allocations of multi-strategy funds in which ERSRI is invested.

