

Part 2A of Form ADV: Firm Brochure

## **CNH Partners, LLC**

**CNH Partners, LLC  
2 Greenwich Plaza  
Greenwich, CT 06830  
Tel: (203) 742-3600  
Fax: (203) 742-3100  
Website: [www.aqr.com](http://www.aqr.com)**

**March 31, 2011**

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This *brochure* provides information about the qualifications and business practices of CHN Partners, LLC (“CNH” or the “Adviser”), an investment adviser registered with the United States Securities and Exchange Commission (the “SEC”). If you have any questions about the contents of this *brochure*, please contact us at 203-742-3600 or [info@aqr.com](mailto:info@aqr.com). This information has not been approved or verified by the SEC or by any *state securities authority*.

Additional information about CHN Partners is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Registration with the SEC or with any *state securities authority* does not imply a certain level of skill or training.

## **Item 2. Material Changes**

On July 28, 2010, the SEC published Release No. IA-3060, “Amendments to Form ADV,” which significantly changed the form and content of the Brochure that we must provide to our advisory clients. As a result, this Brochure is materially different from the disclosure document we were previously required to make available to our advisory clients. This Brochure has been drafted in accordance with the new format mandated by the SEC.

In the future, this Item 2 will include the date of the Brochure’s last annual/interim update and a summary of specific material changes that have been made to the Brochure since the time of that update.

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## Item 4. Advisory Business

Founded in 2001, CNH is an investment adviser with its principal place of business in Greenwich, CT. The Adviser commenced operations as an investment adviser in May 2001 and has been registered with the SEC since November 05, 2001. CNH is a joint venture between RAIM, LLC (“RAIM”) and AQR Capital Management, LLC, a Delaware limited liability company and registered investment adviser (SEC Number 801-55543). RAIM is co-owned by Mark Mitchell, Ph.D. and Todd Pulvino, Ph.D.

CNH provides discretionary investment management services specializing in global merger arbitrage, global convertible arbitrage and other event driven strategies, that trades but is not limited to: individual securities (including global convertible debt and preferred securities), credit default swaps, spot and forward currency contracts, futures, options and other derivative securities. CNH’s investment strategies are provided through separately managed accounts (“Managed Accounts”); collective investment vehicles, private investment partnerships, and foreign investment companies (collectively, “Sponsored Funds”); and through sub-advisory relationships to certain commingled investment funds, Managed Accounts, and registered investment companies (“RICs”) sponsored by AQR or AQR’s affiliates (Managed Accounts, Sponsored Funds, and RICs, collectively, “Clients”).

CNH provides advice to Clients based on specific investment objectives and strategies. Under certain circumstances, CNH may agree to tailor advisory services to the individual needs of a Client. For example, institutional investors may impose restrictions on their Managed Accounts, such as prohibiting certain securities or certain types of securities, or controlling sector and industry concentrations in their portfolios.

As of December 31, 2010, CNH had approximately \$2.9 billion Client assets under management, all of which were managed on a discretionary basis.

## Item 5. Fees and Compensation

The Adviser's compensation depends on the manner through which CNH provides its advisory services. As adviser or sub-adviser to RICs, Sponsored Funds, and Managed Accounts, CNH is compensated on various combinations of fixed asset-based fees and, performance-based fees. As more fully described below, CNH either bills Clients in advance or in arrears, according to the terms of the investment contracts. Under certain circumstances, the fees are negotiable.

CNH provides sub-advisory services to certain registered investment companies – commonly known as mutual funds – sponsored by AQR and unaffiliated third parties. CNH serves as the sub-adviser to the AQR Diversified Arbitrage Fund, an open-end management investment company organized as a series of a Delaware statutory trust. Information concerning the AQR Diversified Arbitrage Fund, including a description of the services provided by management and the fees charged for those services, is contained in the fund's prospectus. A copy of a prospectus may be downloaded from [www.aqrfunds.com](http://www.aqrfunds.com).

The basic fee schedule for Sponsored Funds includes an annual fixed fee ranging from 0.10% to 2.66% of Client assets under management, calculated and typically payable either monthly or quarterly in advance. The fee schedule may also include a performance fee of up to 20%. A performance fee is a fee representing an asset manager's compensation for managing an account which is based upon a percentage of the net profits of the account being managed. When calculating net profits, performance fees may be based on absolute or benchmark relative returns, and may be subject to high water marks. However, depending on the characteristics of the Sponsored Fund, fees may be higher or lower than the stated range. Investors in certain Sponsored Funds may be subject to initial "lock-up" periods with respect to withdrawals/redemptions and may incur redemption fees for early withdrawals/redemptions or late subscriptions, in accordance with the provisions of each partnership or fund. Certain investors in the Sponsored Funds are not charged any management or performance fees or may have a differing fee structure because of their affiliation, relationship, or investment approach.

Generally, advisory fees for Managed Accounts are based upon a percentage of assets under management and may vary depending upon the nature of the portfolio to be managed (e.g., international equity, multi-strategy). Managed Account advisory fees generally range from 0.01% to 1.00% of Client assets under management, payable and calculated at the end of either the month or the quarter. In addition, CNH and the Client may agree upon a performance fee generally ranging from 6% to 20% of all net profits. Fees are based upon the valuation methodology agreed to with each Client. Depending on the characteristics of the account, fees are generally negotiable and may be higher or lower than the stated range.

Certain fee arrangements – particularly those associated with Managed Accounts – provide for the payment of monthly or quarterly advisory fees in advance. Accordingly, if termination of an advisory contract by the Client occurs during a month or quarter in which a fee is charged, such circumstances will result in the refund of a pro rata portion of the fee to the investor or Client for the remaining portion of the monthly or quarterly period, as the case may be. Advisory fees are negotiable for some Clients or investors in certain circumstances and CNH may enter into individual agreements with particular Clients or investors with respect to the timing of accrual any management fee. CNH may deduct the management fee from a Client account by instructing the Client’s custodian or, in the alternative, CNH may bill the Client. In some cases, the Client may select the method by which it would like pay the management fees.

CNH’s fees are exclusive of brokerage commissions, transaction fees, service provider fees, and other related costs and expenses which will be incurred by the client. Execution of Client transactions typically requires payment of brokerage commissions by Clients. “Item 12 – Brokerage Practices” further describes the factors that CNH considers in selecting or recommending broker-dealers for the execution of transactions and determining the reasonableness of their compensation. Investment activity may also involve other transaction fees payable by Clients, such as sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. In addition, Clients may incur certain charges imposed by custodians, broker-dealers, third-party investment consultants, and other third parties, such as custodial fees, consulting fees, administrative fees, and transfer agency fees.

At times, CNH may invest Clients assets in other pooled investment vehicles sponsored by affiliated investment managers. CNH will waive or rebate to a Client its portion of any fees an affiliated investment manager would earn from a placement of a Client’s assets with such affiliated investment manager. CNH may also invest a Client’s assets in other funds managed by CNH or its affiliates on a fee-free basis to facilitate a Fund’s investment in certain trading strategies pursued by CNH.

Specifically, fees for mutual fund investments generally include two types: shareholder fees and annual fund operating expenses. Please refer to the AQR Funds’ prospectuses for a description of the applicable fees. Investors should review the prospectus of any fund in which their assets are invested in order to understand the fees that may be applicable to their particular investment.

## Item 6. Performance Fees and Side-by-Side Management

### **Performance-Based Fees**

A performance fee is a fee representing an asset manager's compensation for managing an account which is based upon a percentage of the net profits of the account being managed. For some Client accounts managed in accordance with certain investment strategies – such as a majority of our Sponsored Funds and a select number of Managed Accounts – a performance fee represents a portion of our standard fee arrangement, and we reserve the right to negotiate the rate of that performance fee with individual investors. For other Client accounts managed in accordance with certain investment strategies – such as the majority of our Managed Accounts, the AQR Funds, and a select group of Sponsored Funds – CNH is compensated solely through a fixed asset-based fee (i.e., fees based simply on the amount of assets under management in an account).

Performance fees create certain inherent conflicts of interest with respect to CNH's management of assets. Specifically, our entitlement to a performance fee in managing one or more accounts may create an incentive for us to take risks in managing assets that we would not otherwise take in the absence of such arrangements. Additionally, since performance fees reward us for performance in accounts which are subject to such fees, we may have an incentive to favor these accounts over those that have only fixed asset-based fees with respect to areas such as trading opportunities, trade allocation, and allocation of new investment opportunities.

As a registered investment adviser and a fiduciary, CNH exercises due care to ensure that investment opportunities are allocated equitably among all Clients, regardless of their corresponding fee-structure. Towards this end, CNH has implemented specific controls built on two general principles: fair allocation of a trade opportunity, and fair allocation of price. The trade opportunities for which a Client will participate are determined by CNH's investment models, as they prescribe the specific appetites for individual securities. The modeling process tempers the Client's investment objectives with its specified account restrictions. Upon completion of the modeling process, the defined investment objectives translate into a set of transactions that are either traded in aggregate with other accounts or individually.

When CNH determines that a set of transactions should be traded in the aggregate, then transactions will generally be averaged to price and allocated among CNH's Clients pro rata, based on original allocation to the purchase and sale orders placed for each Client on any given day. In the event CNH determines that a pro rata allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors (please refer to Item 12 for a detailed description of CNH's trade aggregation and allocation procedures). CNH's Compliance Department monitors the allocation of investment opportunities by utilizing various exception reports, produced daily or on an

as-needed basis. CNH believes that these activities, along with other controls existing in our organization, provide an environment that fosters the fair and equitable treatment of all accounts managed by CNH.

### **Side-by-Side Management**

CNH's investment professionals simultaneously manage multiple types of portfolios including RICs, Sponsored Funds, and Managed Accounts, according to the same or a similar investment strategy (i.e., side-by-side management). The simultaneous management of these different investment products creates certain conflicts of interest, as the fees for the management of certain types of products are higher than others. Nevertheless, when managing the assets of such accounts, CNH has an affirmative duty to treat all such accounts fairly and equitably over time.

Although CNH has a duty to treat all portfolios within an investment strategy fairly and equitably over time, such portfolios will not necessarily be managed the same at all times. Specifically, there is no requirement that CNH use the same investment practices consistently across all portfolios. In general, investment decisions for each Client will be made independently from those of other Clients, and will be made with specific reference to the individual needs and objectives of each Client. In fact, different account guidelines and/or differences within particular investment strategies may lead to the use of different investment practices for portfolios within a similar investment strategy. In addition, CNH will not necessarily purchase or sell the same securities at the same time or in the same proportionate amounts for all eligible portfolios, particularly if different portfolios have materially different amounts of capital under management by CNH or different amounts of investable cash available. As a result, although CNH manages numerous portfolios with similar or identical investment objectives, or may manage accounts with different objectives that trade in the same securities, the portfolio decisions relating to these accounts, and the performance resulting from such decisions, may differ from portfolio to portfolio.

Side-by-side management of various types of portfolios raises the possibility of favorable or preferential treatment of a portfolio or a group of portfolios arising from differences in fee arrangements. As described above, CNH has procedures designed and implemented in furtherance of its efforts to treat all portfolios fairly and equally over time. By utilizing these procedures, CNH believes that portfolios that are subject to side-by-side management alongside other products are receiving fair and equitable treatment over time.



## Item 7. Types of Clients

CNH's Clients and investors consist of pooled investment vehicles; registered investment companies; banks or thrift institutions; pension and profit sharing plans; trusts, estates, and charitable organizations; individuals; and corporations, and other business entities.

CNH's investment minimums vary according to product and strategy. Generally, CNH's Managed Account minimums range from \$50 million to \$100 million. The minimum investment required to invest in a Sponsored Fund is described in each Sponsored Fund's offering memorandum. The minimum investment required to invest in an AQR Fund is described in each fund's prospectus.

## Item 8. Methods of Analysis, Investment Strategies, and Risk of Loss

CNH is a discretionary asset management firm specializing in arbitrage investments. CNH's core investment strategies include convertible arbitrage and merger arbitrage; however, we manage other arbitrage strategies that include when-issued arbitrage, stub-trading arbitrage, dual-class arbitrage, and price-pressure arbitrage. CNH also manages a limited number of alternative investment strategies, including, SPACs, closed-end funds, distressed securities, and PIPEs. Each of these strategies is summarized below.

Arbitrage investment analysis involves the use of an optimizer – or set of algorithms – designed to analyze various risk and return characteristics of an investment. Such characteristics include, but are not limited to, the probability that an investment will decline in value, and the extent of such decline, taking into account the total range of factors effecting market price; and the expected return of an investment, based upon similar investments in our proprietary databases. After an investment has been run through the optimizer, it is evaluated by the portfolio managers and, if approved, included in a portfolio.

CNH also employs fundamental securities analysis to implement its arbitrage strategies and other alternative investment strategies. Fundamental analysis is a method of evaluating an investment in which the adviser attempts to determine the intrinsic value of the investment by examining certain economic, financial, and other qualitative and quantitative factors, including both macroeconomic factors, such as the overall economy and industry conditions, as well as company-specific factors, such as management.

CNH manages the following investment strategies:

*Convertible Arbitrage.* CNH pursues a convertible arbitrage strategy by investing in convertible securities trading at substantial discounts to their fundamental values. A convertible security is a debenture or a preferred security that the holder may exchange into the common stock of a company at a pre-specified rate of conversion under certain circumstances. The Adviser will attempt to mitigate the various risks associated with investing in convertible securities through the implementation of appropriate hedges.

*Closed-End Funds.* Closed-end fund arbitrage is the practice of buying (selling) closed-end funds which trade at abnormally wide discounts (or premiums) relative to the underlying net asset values, and unwinds the position when the discount (or premium) converges to expected levels.

*Distressed Investments.* Distressed investments are made in securities, equities, convertibles and straight debt, of firms which are in or near financial distress and which trade at substantial discounts to fundamental values.

*Diversified Opportunities.* CNH pursues a diversified opportunities strategy by purchasing securities whose prices are trading at discounts to their fundamental values due to an excess supply of sellers and a limited supply of capital providers. These opportunities arise around security issues, cash and stock distributions, mergers, and other corporate events. For example, shareholders that receive equity securities in a spun-off subsidiary may sell the newly trading subsidiary shares shortly after the spin-off. If this concentrated selling exceeds available liquidity, subsidiary shares can trade at a discount to the fundamental value of the subsidiary's cash flows due to an imbalance of supply and demand (i.e. shareholders interested in selling their shares exceed available capital). CNH may implement the investment program with, but is not limited to, PIPEs (described below), global corporate securities, total return equity swaps, credit default swaps, high-yield debt portfolios, high-yield debt portfolio indices, interest rate futures, stock index futures, currency forwards, exchange traded funds, mutual funds, options, financial and commodity futures and options, and over-the-counter swaps on all of the above.

*Dual-Class Arbitrage.* CNH pursues a dual-class arbitrage strategy by taking advantage of inefficiencies in the prices at which different classes of a publicly traded company's stock are trading.

*Merger Arbitrage.* CNH pursues a merger arbitrage strategy by investing in shares of a "target" company in a proposed merger or other reorganization between two companies. If the transaction is for the stock of the acquirer, CNH may seek to hedge the exposure to the acquirer by shorting the stock of the acquiring company in an amount determined with reference to the exchange ratio specified in the agreement between the acquirer and the target company.

*PIPEs.* Private investment in public equity ("PIPEs") involves the direct purchase of a security from a publicly-traded firm in a private placement. The securities include equities, convertibles, debentures, and warrants, and are generally restricted for a set period before they can be resold in the secondary markets.

*Price Pressure Arbitrage.* CNH pursues a "price pressure" strategy by seeking to take advantage of situations in which concentrated buying or selling of securities by a particular group of investors overwhelms the regular trading for the security and affect the price at which the security trades.

*SPACs.* Special purpose acquisition companies ("SPACs"), often called "blank check" companies, are publicly traded companies whose primary asset is a trust invested in short-term high-grade securities. The fund seeks to capture a liquidity premium when these securities, which are typically lightly traded, are selling at a discount.

*Stub-Trading Arbitrage.* CNH pursues a stub-trading arbitrage strategy takes advantage of inefficiencies in the prices at which a stock of a publicly traded parent corporation and its publicly traded subsidiary are trading.

*When-Issued Arbitrage.* CNH pursues this strategy by taking advantage of inefficiencies in the prices at which a parent's and subsidiary's stock is trading on a "when-issued" basis immediately prior to the spin-off of the subsidiary.

CNH implements its strategies through the use of the following investment techniques and investment tools:

*Hedging.* Certain of CNH's strategies utilize a variety of financial instruments such as derivatives, options, interest rate swaps, and futures and forward contracts for risk management purposes.

*Leverage.* Certain of CNH's strategies utilize varying amounts of leverage, which involves the borrowing of funds from brokerage firms, banks, and other institutions in order to be able to increase the amount of capital available for securities investments. Leverage may also be embedded in financial instruments, including over-the-counter derivatives, options, short sales, swaps, and forwards, which enable investors to gain exposure to assets whose value exceeds the amount of capital necessary to obtain such exposure.

*Option Trading.* Options are investments whose ultimate value is determined from the value of the underlying investment. CNH may purchase or sell exchange-traded or privately negotiated call and put options, either on a single asset or a basket of assets. CNH may also purchase or sell options on futures contracts and options on forward contracts.

*Repurchase Agreement.* Certain of CNH's strategies require the Adviser to enter into repurchase transactions. In a repurchase transaction, a Client acquires a security from an approved vendor, and simultaneously agrees to resell it to the approved vendor, at a price exceeding the purchase price by an amount that reflects an agreed-upon interest rate effective for the period during which the repurchase agreement is in effect.

*Reverse Repurchase Agreements.* Certain of CNH's strategies require the Adviser to enter into reverse repurchase transactions. In a reverse repurchase transaction, a Client sells a security to an approved vendor, and simultaneously agrees to repurchase it from the vendor, at a price less than the sale price by an amount that reflects an agreed-upon interest rate effective for the period during which the reverse repurchase agreement is in effect.

*Securities Lending.* Some of CNH's Clients may lend their portfolio securities to certain types of eligible borrowers in an attempt to increase its income or total return. Each loan will be secured continuously by collateral in the form of cash, high quality money market instruments or securities issues by the U.S. government or its agencies or instrumentalities. Securities lending will be conducted by a securities lending agent, who maintains a list of broker-dealers, banks, or other institutions that it has determined to be creditworthy. CNH has the ability to request that a borrower be removed from the

securities lending agent's "approved list." A Client will only enter into loan arrangements with borrowers on the approved list.

*Short Selling.* In a short sale transaction, CNH sells a security it does not own in anticipation that the market price of that security will decline. CNH makes short sales as a form of hedging to offset potential declines in long positions in similar securities; in order to maintain flexibility; and for profit.

***There can be no assurance that the objectives associated with any strategies described above will be met. At any time, CNH may add, remove, or modify any of the strategies it employs and this includes any of the strategies discussed above. These methods, strategies, and investments involve risk of loss to Clients and Clients must be prepared to bear the loss of their entire investment.***

Some of the risks associated with CNH's investment strategies, and the securities and other assets utilized to implement those strategies include, but are not limited to the following:

*Arbitrage Transaction Risks.* If the requisite elements of an arbitrage strategy are not properly analyzed or unexpected events or price movements intervene, losses can occur which can be magnified to the extent CNH is employing leverage. Moreover, arbitrage strategies often depend upon identifying favorable "spreads", which can also be identified, reduced or eliminated by other market participants.

*Borrowing and Embedded Leverage.* Some Clients allow secured and unsecured borrowing to the maximum extent allowable under applicable credit regulations. Like other forms of leverage, the use of borrowing can enhance the risk of capital loss in the event of adverse changes in the level of market prices of the assets being financed with the borrowings. Leverage may also take the form of financial instruments, including over-the-counter derivative instruments which are inherently leveraged; and products with embedded leverage such as options, short sales, swaps, and forwards, in which an investor can lose more money than the initial cost of the investment. The use of leverage allows the Adviser to increase its exposure to assets, such that total assets may be greater than capital invested. However, the use of leverage may also magnify the volatility – or the likelihood of short-term changes in value – of any portfolio. The effect of the use of leverage in a portfolio may result in losses to the portfolio that exceed losses to the portfolio if such portfolio did not utilize leverage.

*Cash and Forward Trading.* Cash and forward contracts for the trading of certain commodities, such as foreign currencies, may be entered into with banks and market makers. Although the banks and market makers may be regulated in various ways by the U.S. Commodity Futures Trading Commission ("CFTC"), the National Futures Association ("NFA"), the SEC, the Federal Reserve Board, the Comptroller of the Currency, and other Federal and state authorities, these regulatory agencies do not regulate the trading of cash commodities or forward contracts. In addition, such contracts are not traded on exchanges. As a result, there is no limitation on daily price movements

of cash or forward contracts and market makers are not required to make markets in any cash commodities. Also, certain customer protections will not be available to Clients in connection with any such trading. There have been periods during which certain market makers have refused to quote prices for cash commodities or forward contracts or have quoted prices with an unusually wide spread between the price at which the market maker is prepared to buy and the price at which it is prepared to sell. If this should occur, CNH might not be able to utilize effectively its cash and forward trading programs. This could result in significant losses to a Client.

*Commodities.* Commodity investments are affected by business, financial market or legal uncertainties. There can be no assurance that CNH will correctly evaluate the nature and magnitude of the various factors that could affect the value of and return on its commodity investments. Prices of commodity investments may be volatile, and a variety of factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the results of the Adviser's portfolio and the value of its investments. In addition, the value of the Adviser's portfolio may fluctuate as the general level of interest rates fluctuates.

*Commodity Futures and Options.* Commodity futures markets are highly volatile and are influenced by factors such as changing supply and demand relationships, governmental programs and policies, national and international political and economic events and changes in interest rates. In addition, because of the low margin deposits normally required in commodity futures trading, a high degree of leverage may be typical of a pooled investment vehicle engaging in commodity futures trading. As a result, a relatively small price movement in a commodity futures contract may result in substantial losses to such a pooled investment vehicle. Commodity options, like commodity futures contracts, are speculative, and their use involves risk. Specific market movements of the cash commodity or futures contract underlying an option cannot be predicted, and no assurance can be given that a liquid offset market will exist for any particular futures option at any particular time.

*Counterparty Risk.* Counterparty risk is the risk to each party of a contract that the counterparty will not live up to its contractual obligations. Should counterparty fail to fulfill its obligations to CNH, Clients could potentially incur a loss as a result of counterparty credit exposure

*Fixed-Income and Debt Securities.* Investment in fixed-income and debt securities such as bonds, notes and asset-backed securities, subject a Client to the risk that the value of these securities overall will decline because of rising interest rates. Similarly, portfolios that hold such securities are subject to the risk that the portfolio's income will decline because of falling interest rates. Investments in these types of securities will also be subject to the credit risk created when a debt issuer fails to pay interest and principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of that debt to decline. Lastly, investments in debt securities will also subject the investments to the risk that the securities may fluctuate more in price, and are less liquid than higher-rated securities

because issuers of such lower-rated debt securities are not as strong financially, and are more likely to encounter financial difficulties and be more vulnerable to adverse changes in the economy.

#### *Futures Contracts Risks*

- **Volatility.** Futures prices are highly volatile. Due to the low margin deposits normally required in futures trading, an extremely high degree of leverage is typical of a futures trading account. As a result, a relatively small price movement in a futures contract price may result in substantial losses to a portfolio. Like other leveraged investments, any purchase or sale of a futures contract may result in losses in excess of the amount invested. Accordingly, relatively small futures positions have the potential to erode significantly or erase gains in other investments held by a portfolio.
- **Margin Requirements.** Margin requirements with respect to futures contracts are set by the individual futures exchange or other trading facility for each type of futures contract based upon the perceived volatility of each type of contract. The margin requirements for each transaction vary not only by the type of futures contract, but also depending upon whether the transaction is deemed to be “bona fide hedging” within the meaning of Section 1.3(z) of the CFTC Regulations. Margin requirements with respect to transactions that are not bona fide hedging are significantly higher than margin requirements for bona fide hedging transactions. In addition to traditional commodity and financial futures contracts, portfolios may trade security futures contracts. Margin requirements for security futures contracts generally are the same as those for comparable equity options.
- **Daily Price Fluctuation Limits.** Futures exchanges and trading facilities limit fluctuations in certain futures contract prices during a single day by regulations referred to as “daily price fluctuation limits” or “daily limits.” During a single trading day no trades may be executed at prices beyond the daily limit. Once the price of a futures contract for a particular commodity has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. Futures prices have occasionally moved to the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the prompt liquidation of unfavorable positions and subject a portfolio to substantial losses.
- **Possible Effects of Speculative Position Limits.** The CFTC and certain futures exchanges and trading facilities have established limits referred to as “speculative position limits” on the maximum net long or net short positions that any person may hold or control in particular commodities. All of the futures positions held by all accounts owned or controlled by AQR, CNH and its principals may be aggregated with positions of each portfolio for the purpose of determining compliance with position limits. Trading instructions may have to be modified

and positions held by a Client may have to be liquidated in order to avoid exceeding such limits. Such modification or liquidation, if required, could adversely affect the operations and profitability of a portfolio. Further, to avoid exceeding the position limits, the Adviser might have to forego or modify certain of its contemplated trades. Speculative position limit rules also apply to exchange traded equity options and are expected to apply to swaps.

*General Risks of Derivatives Use.* Derivatives trading is highly speculative. Price movements of derivative contracts are influenced by, among other things, changing supply and demand relationships, governmental agricultural and trade programs and policies, and national and international political and economic events. Changing crop prospects occasioned by unexpected weather or damage by insects or plant diseases make it difficult to forecast supplies of agricultural commodities. Similarly, demand is also difficult to forecast because of such factors as variable world production patterns, unexpected purchases by foreign countries and continued changes in domestic needs. Foreign currency forward prices are influenced by, among other things, changes in balances of payments and trade, domestic and international rates of inflation, international trade restrictions and currency devaluations and revaluations. In addition, unless a portfolio is hedged against fluctuations in the exchange rate between the U.S. Dollar and the currencies in which trading is done on some foreign exchanges, any profits that such a portfolio realizes in trading on such exchanges could be eliminated by adverse changes in the exchange rate, or such a portfolio could incur losses as a result of any such changes.

*Hedging.* There can be no assurances that a particular hedge is appropriate, or that certain risk is measured properly. Further, while CNH may enter into hedging transactions to seek to reduce risk, such transactions may result in poorer overall performance and increased (rather than reduced) risk for the Adviser's investment portfolios than if CNH did not engage in any such hedging transactions.

*Illiquid Instruments.* Certain instruments, such as derivatives and other types of unregistered financial instruments, may have no readily available market or third-party pricing. Reduced liquidity may have an adverse impact on market price, and the Adviser might only be able to liquidate these positions at highly disadvantageous prices, if at all. The market prices, if any, for such illiquid financial instruments tend to change rather quickly and the Adviser may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. Even those markets which the Adviser expects to be liquid can experience periods, possibly extended periods, of illiquidity. For some investments, the Adviser may be unable to predict with confidence what the exit strategy will ultimately be for any given core position, or that one will definitely be available. Exit strategies, which appear to be viable when an investment is initiated, may be precluded by the time the investment is ready to be realized due to economic, legal, political or other factors.

*Interest Rate Risk.* Portfolios are subject to interest rate risk. Generally, the value of fixed income securities will change inversely with changes in interest rates. As



interest rates rise, the market value of fixed income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed income securities tends to increase. This risk will be greater for long-term securities than for short-term securities. CNH may attempt to minimize the exposure of the portfolios to interest rate changes through the use of interest rate swaps, interest rate futures and/or interest rate options. However, there can be no guarantee that CNH will be successful in fully mitigating the impact of interest rate changes on the portfolios.

*Investment and Trading Risk Generally.* Investments in securities and other financial instruments and products that are subject to market forces risk the permanent loss of capital as a result of adverse market developments, which can be unpredictable. To the extent that a portfolio is concentrated in any one particular strategy, the risk of any incorrect investment decision is increased. Each strategy exposes the Client's capital to the risk of an extremely rapid and severe decline in value in the event of a sudden change in the level of volatility (e.g., a market crash) that is not anticipated by CNH.

*Liquidity Risk Generally.* Liquidity – or the ability to quickly sell an asset at its fair market value – is important to the Adviser's businesses. Under certain market conditions, such as during volatile markets or when trading in a financial instrument or market is otherwise impaired, the liquidity of the Adviser's portfolio positions may be reduced. In addition, the Adviser may, from time to time, hold large positions in a particular portfolio with respect to a specific type of financial instrument, which may reduce the portfolio's liquidity. During such times, CNH may be unable to dispose of certain financial instruments, including longer-term financial instruments, which would adversely affect its ability to rebalance a portfolio or meet redemption requests. Under these circumstances the Adviser may be forced to dispose of financial instruments at reduced prices, thereby adversely affecting its performance. If there are other market participants seeking to dispose of similar financial instruments at the same time, the Adviser may be unable to sell such financial instruments or prevent losses relating to such financial instruments. Furthermore, if the Adviser incurs substantial trading losses, the need for liquidity could rise sharply while its access to liquidity could be impaired. Finally, in conjunction with a market downturn, the Adviser's counterparties could incur losses of their own, thereby weakening their financial condition and increasing such the Adviser's credit risk to those counterparties.

*Off-Balance Sheet Risk.* In the normal course of business, CNH may invest in financial instruments with off-balance sheet risk. These instruments include futures contracts, forward contracts, swaps and securities and options contracts sold short. An off-balance sheet risk is associated with a financial instrument if such instrument exposes the investor to an accounting and economic loss in excess of the investor's recognized asset carrying value in such financial instrument, if any; or if the ultimate liability associated with the financial instrument has the potential to exceed the amount that the investor recognizes as a liability in the investor's statement of assets and liabilities. Additionally, in the normal course of business, CNH may purchase long positions in option contracts that do not have off-balance sheet risk. The risk that these financial

instruments expose the investor to is not in excess of the investor's recognized asset carrying value in the statement of assets and liabilities.

*Options.* There are risks associated with the sale and purchase of call options. The seller (writer) of a call option which is covered (*e.g.*, the writer holds the underlying security) assumes the risk of a decline in the market price of the underlying security below the purchase price of the underlying security less the premium received, and gives up the opportunity for gain on the underlying security above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security above the exercise price of the option. The buyer of a call option assumes the risk of losing its entire investment in the call option.

There are risks associated with the sale and purchase of put options. The seller (writer) of a put option which is covered (*e.g.*, the writer has a short position in the underlying security) assumes the risk of an increase in the market price of the underlying security above the sales price (paid to establish the short position) of the underlying security if the market price falls below the exercise price of the option. The seller of an uncovered put option assumes the risk of decline in the market price of the underlying security below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire investment in the put option.

*Short Sales.* A short sale involves the sale of a security that a portfolio does not own in the expectation of purchasing the same security (or a security exchangeable therefore) at a later date at a lower price. To make delivery to the buyer, the portfolio must borrow the security, and the portfolio is obligated to return the security to the lender, which is accomplished by a later purchase of the security by the portfolio. In some cases, the lender may rescind the loan of securities and cause the borrower to repurchase shares at inflated prices, resulting in a loss. When a portfolio makes a short sale in the United States, it must leave the proceeds thereof with the broker and it must also deposit with the broker an amount of cash or marketable securities sufficient under current margin regulations to collateralize its obligation to replace the borrowed securities that have been sold. If short sales are affected on a foreign exchange, such transactions will be governed by local law. A short sale involves the risk of a theoretically unlimited increase in the market price of the security. The extent to which a portfolio will engage in short sales depends upon CNH's investment strategy and perception of market direction. In addition, global regulatory prohibitions on short sales may impair CNH's ability to implement its investment process. Bans may add additional constraints to a strategy, which may increase transaction costs as well as the time required to monitor compliance with the restrictions.

*Use of Swaps and Other Derivatives.* CNH may make use of swaps and other forms of derivative contracts. In general, a derivative contract (including options, as described below) typically involves leverage, *i.e.*, it provides exposure to potential gain or loss from a change in the level of the market price of a security, currency or commodity (or a basket or index) in a notional amount that exceeds the amount of cash or

assets required to establish or maintain the derivative contract. Consequently, an adverse change in the relevant price level can result in a loss of capital that is more exaggerated than would have resulted from an investment that did not involve the use of leverage inherent in the derivative contract. Depending on the strategy, many of the derivative contracts used by CNH may be privately negotiated in the over-the-counter market. These contracts also involve exposure to credit risk, since contract performance depends in part on the financial condition of the counterparty or the counterparty's guarantor. These transactions may also involve significant transaction costs.

## Item 9. Disciplinary Information

This item is inapplicable.

## Item 10. Other Financial Industry Activities and Affiliation

*Material Relationships or Arrangements with Industry Participants, and Commodities Related Registration.* CNH is a Delaware limited liability company whose members are AQR and RAIM. AQR is registered with the CFTC as a commodity pool operator and commodity trading advisor, and is a member of the NFA. RAIM is not a registered investment advisor and does not have investment management agreements or discretionary authority over CNH Clients.

CNH or affiliated entities may from time to time serve as the investment manager for separate offshore master funds (“Master Funds”) that are generally formed as limited partnerships or Cayman Islands exempted companies. Each such Master Fund is a “master” fund in a “master-feeder” structure through which qualified investors (“Subscribers”) invest. The general partners of such Master Funds are CNH -affiliated entities. Generally, one or more feeder funds (“Feeder Funds”) invest in a Master Fund or in several Master Funds. The Master Funds and each of the Feeder Funds, which are both Sponsored Funds, are organized as separate legal entities.

For its Sponsored Funds, CNH has the absolute discretion to agree with a Subscriber, particularly with respect to those Subscribers who may be large or strategic investors, to waive or modify the application of any provision of a Sponsored Fund agreement (including, but not limited to, those relating to liquidity, investment capacity, compensation and transparency) with respect to a subscriber, in accordance with its duties under the Advisers Act and through written agreements (“Side Letters”). In some instances, Side Letters may grant such Subscribers materially favorable terms relating to, among other things, liquidity, investment capacity, compensation transparency, and trade errors. In addition, CNH also reserves the right to waive or rebate all or a portion of its management fees and/or the performance fee allocation with respect to a subscriber. Prospective investors should consider these possible conflicts of interest in making their decision to invest in a Sponsored Fund as Side Letters may result in, but are not limited to, wealth transfers to certain investors and may affect an investor’s expectations as to a subscriber’s future return and risk.

CNH may provide Subscribers different levels of disclosure with respect to specific security positions and/or portfolio characteristics of Sponsored Funds. Accordingly, not all Subscribers will have the same degree of access to the type and/or frequency of individual position listings in connection with Sponsored Funds in which they invest and transparency of portfolio characteristics may differ based on Side Letters with Subscribers.

## Item 11. Code of Ethics, Participation or Interests in Client Transactions and Personal Trading

*Code of Ethics.* CNH's officers, principals, and employees and their members of household (collectively "Covered Persons") must abide by CNH's Code of Ethics (the "Code"). The Code is divided into three sections; the General Standards, the Personal Trading Policies and the Policy to Prevent the Misuse of Non-Public Information.

The General Standards describe the antifraud provision and the reporting of conflicts of interest. It also details CNH's enforcement of its fiduciary duty and its Compliance Manual.

The Personal Trading Policies requires Covered Persons to obtain specific permission from the Compliance Department to maintain a personal securities account at any brokerage firm. If permission is granted, Covered Persons are required to notify their brokerage firm to provide duplicate copies of trade confirmations, statements and other information concerning the account directly to the Compliance Department. Covered Persons must report all accounts in which they have beneficial interest and hold reportable securities. CNH requires Covered Persons to obtain permission from the Compliance Department prior to effecting any transaction in non-exempt securities, options (with maturities of 90 days or greater), Exchange Traded Funds (based on one issuer or a Narrow-Based Securities Index), Unit Trusts, Closed-end Funds, REITs, affiliated mutual fund, Broad-Based Index Futures, margin transactions, and private placements. In addition, Covered Persons must adhere to CNH's anti-front running requirements and are prohibited from purchasing or selling securities, while possessing material nonpublic information; engaging in securities short sales; purchasing and selling, or selling and purchasing, the same or *equivalent* (i.e. another derivation of the same issuer's equity) stock within 30 calendar days; transacting in a stock for which they wrote, purchased or sold an option within 30 calendar days; engaging in equity options that have a maturity of less than 90 calendar days, or within 30 calendar days following the purchase of the same issuer's stock or equivalent; engaging in additional equity option contracts for the same issuer within 30 calendar days of the initial equity option transaction; purchasing or selling security futures or futures based on a Narrow-Based Securities Index; acquiring any securities in an initial public offering. All exceptions to these policies must be approved by the CCO or designee.

CNH's Policy To Prevent the Misuse of Non-Public Information prohibits employees from purchasing or selling securities, while in possession of material nonpublic information and is prohibited from disclosing such material non-public information to any person, including, but not limited to, family members.

CNH's Code includes policies and procedures regarding giving or receiving gifts and business entertainment between the Adviser's employees and certain third parties (e.g.,

vendors, broker-dealers, consultants, etc.) to help mitigate the potential for conflicts of interest surrounding these practices. In general, CNH limits the amount (i.e., value and frequency) of gifts and business entertainment that may be provided by employees to these parties, and requires the pre-approval of certain items by our Compliance Department. CNH specifically monitors for any potential conflicts of interest with respect to individual instances of gifts or entertainment, as well as patterns of the same over time, to prevent the interests of CNH and its employees from being placed ahead of the interests of our clients.

From time to time, CNH may donate to charitable enterprises that are CNH investors, are supported by investors, and/or are supported by an individual employed by one of our investors. In general, those donations are made in response to requests from investors and/or their personnel. Members of CNH's management team and Compliance Department approve charitable contributions to be made by the Adviser. Management may take into consideration the importance of the investor relationship as one factor in determining whether to approve a charitable contribution.

CNH prohibits its employees from making political contributions on behalf of the Adviser or to be reimbursed for personal political contributions, or from making political contributions for the purpose of securing or retaining business. As part of its Code, CNH maintains policies and procedures that set forth specific limitations as to whom employees may make contributions and the amounts of such contributions, as well as preclearance requirements for certain political contributions. CNH monitors all such contributions in furtherance of its efforts to comply with federal law and to inhibit the potential for any such contributions to affect the awarding of public business related to the management of assets.

We are firmly committed to making our employees and investors (both current and prospective) aware of the requirements within our Code. All of our employees are provided with a copy of our Code at the time of hire and annually thereafter, and each employee must affirm that they have received a copy of the Code, and that they have read and understand its provisions. Additionally, we conduct periodic compliance training that addresses the requirements of the Code and the other policies described in this Item.

Clients may obtain a copy of the Code upon request.

*Client Transactions in Securities where Adviser has Material Financial Interest.* CNH or its related persons act as a general partner, sponsor, or investment adviser to partnerships, trusts, or other entities for which CNH solicits investments

These practices create a conflict of interest because CNH or related person has an incentive to recommend its products to Clients based on its own financial interests, rather than solely the interests of a Client.

With respect to Sponsored Funds, CNH requires investors to complete subscription documents, which determine not only if investors are eligible to invest in such funds

under the various securities law, but also whether the decision to do so was made on an independent basis.

*Investing in Securities Recommended to Clients.* When CNH determines that it would be appropriate for one or more Sponsored Funds or other Clients, including its own proprietary accounts, to participate in an investment opportunity, CNH will seek to execute orders for all of the participating accounts and its own account, on an equitable basis. Specifically, if CNH has determined to invest at the same time for more than one of the accounts, CNH may place combined orders for all such accounts simultaneously (aggregate or bunch trade) and if any order is not filled at the same price, it may average the prices paid. Similarly, if an order on behalf of more than one account cannot be fully executed under prevailing market conditions, CNH may allocate the securities traded among the different accounts on the basis in which it considers equitable. In these circumstances, each account would generally pay, in connection with the acquisition of securities by more than one account, the average price per unit acquired, which may be higher than if it had acted alone, and it may otherwise not be able to execute an investment decision as effectively as it could have if it had acted alone

Subject to applicable laws and/or Client restrictions, CNH may buy, sell or hold securities for a Client or proprietary account while entering into a different or opposite investment decision for other Client or proprietary accounts. Hence, CNH may purchase or sell the same securities for more than one advisory Client (or proprietary account) account on the same day (including at the same time) in the same direction, the opposite direction or a combination of the two directions. There may be potential disadvantages when more than one Client account simultaneously seeks to buy or sell commonly held securities and other investment positions. Also, Clients may hold securities whose issuers are subject to a merger or are issuing convertible securities and subsequently invested in by Sponsored Funds managed by both CNH and AQR. In general, Clients may take an opposite investment position (*i.e.*, a long position versus a short position) in the same security held by other Clients.

CNH will allocate investment opportunities and trades fairly. “Fair” treatment does not mean identical treatment of all Clients. Rather, it means that CNH does not discriminate on an impermissible basis against one Client or group of Clients. When CNH transacts in securities for more than one account, the investment opportunities and trades must be allocated in a manner consistent with our fiduciary duties. Please refer to Item 12 for a description of AQR’s trade aggregation and allocation procedures.

*Conflict of Interest Created by Contemporaneous Trading.* Certain qualified employees have invested their own monies in proprietary accounts and Sponsored Funds managed by investment personnel of CNH and/or AQR. From time to time, CNH or a related person may buy or sell securities for Clients at or about the same time that CNH or a related person buys or sells the same securities for its own accounts. These proprietary accounts and Sponsored Funds may hold, purchase, sell or short the same investments in which Clients have interests. In order to minimize the conflicts stemming from situations where this type of contemporaneous trading results in an economic benefit for CNH or its



related persons to the detriment of the Client, CNH has adopted the trade aggregation and allocation policies and procedures discussed in Item 6, above, and Item 12, below.

*Insider Trading/Material Non-Public Information.* All CNH employees are subject to AQR's Policy to Prevent the Misuse of Material Non-Public Information (the "CNH Insider Trading Policy"), included as part of CNH's Code. The CNH Insider Trading Policy broadly prohibits the use of material, non-public information, and includes policies and procedures prohibiting the use of material non-public information that are designed to prevent insider trading by an officer or employee of the Adviser.

In accordance with these policies, to prevent trading of public securities based on material, non-public information, CNH may maintain a "restricted list" that identifies any securities that cannot be purchased for employee, client, or firm-owned accounts because material, non-public information may have been received by an employee of the firm. The issuers named on this restricted list are coded as prohibited in AQR's trading and portfolio compliance system, thus blocking the Adviser from trading in these securities without the consent of the Adviser's Chief Compliance Officer.

## Item 12. Brokerage Practices

CNH is responsible for the placement of the portfolio transactions for Clients and the negotiation of any commissions or spreads paid on such transactions. Securities transactions normally will be purchased through brokers selected by CNH in its sole discretion without the consent of the Clients. Each broker-dealer acting as counterparty to CNH is first reviewed by the Adviser's Counterparty Credit Committee, which was established to assess the creditworthiness of these counterparties on an ongoing basis. Only after due diligence is complete will the Counterparty Credit Committee vote to approve a broker-dealer.

*Brokerage Relationships.* CNH's relationships with broker-dealers, particularly those affiliated with large financial services organizations, are complex. CNH uses various broker-dealers to execute trades on behalf of Clients, but we may also have many other relationships with such firms. For example:

- CNH may invest Client assets in securities issued by broker-dealers or their affiliates;
- CNH may provide investment management services to certain broker-dealers or their affiliates.
- Certain broker-dealers may provide both internally-generated and third-party research to CNH, as part of a bundled service.
- Certain broker-dealers may refer prospective clients to CNH (CNH will compensate these broker-dealers by directing brokerage transactions effected by CNH as principal for its own proprietary trading account, but not for Client accounts).

Notwithstanding such relationships or business dealings with these broker-dealers, we have a fiduciary duty to Clients to seek best execution when trading with these firms, and have implemented policies and procedures to monitor its efforts in this regard.

### *Selection Factors for Broker-dealers*

Best Execution. Clients often grant CNH or its affiliates the authority to select the broker-dealer to be used for the purchase or sale of securities. Consequently, CNH has a duty to seek best execution of transactions for Client accounts. "Best execution" is generally understood to mean the most favorable cost or net proceeds reasonably obtainable under the circumstances. In seeking best execution, CNH takes into account factors including but not limited to the following: the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); the operational efficiency with which transactions are effected, taking into account the size of order and difficulty of execution; the financial strength, integrity and stability of the broker; the firm's risk in positioning a block of securities; the quality,

comprehensiveness and frequency of available research services considered to be of value; and the competitiveness of commission rates in comparison with other brokers satisfying CNH's other selection criteria.

Commission Rates. Recognizing the value of these factors, CNH may select broker-dealers who charge a commission in excess of that which another broker-dealer might have charged for effecting the same transaction. CNH is not obligated to choose the broker-dealer offering the lowest available commission rate if, in CNH's reasonable judgment, the total cost or proceeds from the transaction may be less favorable than what may be obtained elsewhere or if a higher commission is justified by the service and/or research provided by another broker-dealer.

Consequently, CNH is authorized to pay higher prices for the purchase of securities from or accept lower prices for the sale of securities to brokerage firms that provide it with such investment and research information or to pay higher commissions to such firms if CNH determines such prices or commissions are reasonable in relation to the overall services provided. Research services furnished by brokers may include written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; statistics and pricing or appraisal services; discussion with research personnel; and invitations to attend conferences or meetings with management or industry consultants. CNH is not required to weigh any of these factors equally. Information so received is in addition to and not in lieu of services required to be performed by CNH and CNH's fee is not reduced as a consequence of the receipt of such supplemental research information. Research services provided by broker-dealers used by the Client may be utilized by CNH or its affiliates in connection with its investment services for other accounts and, likewise, research services provided by broker-dealers used for transactions of other accounts may be utilized by CNH in performing its services for the Clients. Since commission rates in the United States are negotiable, selecting brokers on the basis of considerations which are not limited to applicable commission rates may at times result in higher transaction costs than would otherwise be obtainable. Though CNH does not anticipate using soft dollars, if CNH decides to do so in the future, we would utilize only those services which would be within the safe harbor afforded by Section 28(e) of the Securities Exchange Act of 1934, as amended, such that credits generated by CNH's advised accounts will only be used to obtain investment research and brokerage services that provide lawful and appropriate assistance to CNH in the performance of investment decision-making responsibilities.

For merger arbitrage transactions, a range of commission rates has been established with each broker-dealer and commissions are negotiated on a deal-by-deal basis. The actual commission rate applied is determined by the nature of the deal, specifically, the price of the stocks, which affects the percentage of commissions paid. Commissions are determined in the following two ways: (a) establishing a commission rate at the time of trade execution; and (b) by providing the broker-dealer with a net commission limit based on an assumed commission rate. In the latter option, the rate is implicitly set to a certain commission rate unless the broker-dealer is able to improve on the execution price, in

which case a higher commission (capped by the agreed upon range) may be charged by the broker-dealer.

CNH may also engage in agency transactions in over-the-counter equity and debt securities. In these situations the Client may pay an agency commission in addition to the mark-up or markdown assessed by the market maker. CNH may earn soft dollar credits on such transactions.

Review of Broker-Dealer Execution. CNH has implemented a series of internal controls and procedures to address the conflicts of interest associated with its brokerage practices. To determine that it is receiving best execution for its transactions over time, CNH will obtain information as to the general level of commission rates being charged by the brokerage community, from time to time, and will periodically evaluate the overall reasonableness of brokerage commissions paid on Client transactions by reference to such data. To the extent CNH has been paying higher commission rates for its transactions, CNH will determine if the quality of execution and the services provided by the broker-dealer justify these higher commissions.

As required by CNH's Investment Management Policy the members of the Trade Monitoring Group ("TMG") monitor best execution. The TMG reviews commission rates by broker, by region, by investment type, per Client as part of its overall responsibility. When employing direct market access trading methods, counterparty effectiveness is based primarily on cost, connectivity and operational performance. Moreover, the Counterparty Credit Committee reviews credit quality and operational viability.

*Directed Brokerage.* From time to time a Client may direct CNH to use a particular broker-dealer for all or a percentage of trades ("directed brokerage arrangement"). The Client should consider the costs and disadvantages that may occur if a directed brokerage arrangement is employed, such as higher commissions, less than favorable execution, and/or exclusion from trade opportunities. It is CNH's practice not to negotiate commission rates with directed broker-dealers unless expressly requested by the Client. .

Thus, Clients with directed brokerage arrangements should consider the following: they may pay higher commissions on some transactions than might be attained by CNH, or may receive less favorable execution on some transactions, or both; they may not be able to participate in the allocation of New Issues; CNH may not begin to execute transactions with directed broker-dealers until non-directed brokerage orders are completed; and they may not generate returns equal to those Clients that do not have directed brokerage arrangements. Accordingly, the Client should determine whether or not the broker-dealer could provide adequate price and execution for its transactions.

*Prime Brokerage.* Many Sponsored Funds, as well as the AQR Diversified Arbitrage Fund, have one or more prime broker through which its trade clearance and financing is coordinated. Prime brokers may also provide CNH with research, reporting and analysis

tools as part of their services. In addition, a prime broker may host conferences and events through which the fund may identify potential investors.

*Step-Outs.* CNH may use “step-out trades” when we determine that it may facilitate better execution for certain Client trades. Step-out trades are transactions which are placed at one broker-dealer and then “given up” or “stepped out” by that broker-dealer to another broker-dealer. Step-out trades may benefit the Client by finding a natural buyer or seller of a particular security so that CNH can trade a larger block of shares more efficiently. Unless directed otherwise by the client, CNH may use step-out trades for any Client account.

*Soft Dollar Arrangements.* The term “soft-dollars” refers generally to the practice by investment advisers of paying for research and brokerage services using brokerage commissions generated by the execution of trades for their clients’ or sponsored funds’ accounts. Under no circumstances shall any CNH employee enter into any oral or written agreement providing for the specific allocation of brokerage or other execution activity in exchange for soft dollar benefits without the prior approval from the Soft Dollar Committee. The Soft Dollar Committee will convene only if an arrangement is being considered or in use.

Section 28(e) of the Securities Exchange Act of 1934 requires that a person exercising discretion with respect to an account must make a good-faith determination that the rate paid for brokerage services is reasonable in relation to the value of the research services provided, viewed either in terms of the particular transaction or in terms of overall responsibility with respect to accounts for which the money manager exercises investment discretion. It is thus considered compliant for the money manager to “pay up” for research services.

#### General Guidelines.

- The Soft-Dollar Committee must unanimously approve all soft dollar arrangements in advance.
- The products and services provided by the broker must constitute "research"; that is, they must "provide lawful and appropriate assistance to the money manager's investment decision-making process...." If products or services are utilized both for research and other purposes, CNH will pay in hard dollars for the portion of such products and services that it allocates in good faith to non-research purposes. Research and brokerage services do not include overhead or administrative expenses, the correction of trading efforts, or consulting services in marketing aimed at soliciting new investors.
- CNH will not obligate itself to generate a specified commission amount, or pay in hard dollars to the extent that a specified level of commissions is not reached.
- The broker or dealer with whom the brokerage is placed, including its subsidiaries, must provide the research. CNH can place orders with a broker in payment for research which the broker did not produce "in house" if, and only if, the broker has "provided" the research - that is, if the broker (and not CNH) has incurred a

direct legal obligation to the third party producing the research to pay for that research (CNH can participate in the selection of the research to be provided).

- If an order is placed with an introducing broker that provides research but executes through a second broker, the second broker must be the introducing broker's "normal and legitimate correspondent." This standard is met if the introducing broker is "engaged in securities activities of a more extensive nature than merely the receipt of commissions paid to it by other broker-dealers for 'research services' provided to money managers."
- CNH must exercise investment discretion in the management of an account eligible to generate soft-dollars.
- Commissions must be used to purchase the services. Transactions with mark-ups/markdowns are not eligible for soft-dollar treatment.
- The investment services and products received from a particular broker through whom a trade is executed may be used by CNH to benefit any or all of CNH's clients and sponsored funds.

The safe harbor provided by Section 28(e) of the 1934 Act, is not available for futures transactions. Although the CFTC has not expressed its view on its issue, Rule 4.24(j)(3) and Rule 4.34(j)(3) under the CPO/CTA rules specifically require disclosure of conflicts of interest relating to soft dollar arrangements for CPOs and CTAs respectively. If it enters into a soft dollar arrangement with a Futures Commission Merchant ("FCM"), a CPO/CTA has a fiduciary obligation to its clients and must (i) act solely in the best interest of its clients; (ii) make full disclosure of all material facts, including any conflicts of interest; and (iii) monitor the cost and performance of the FCM, both initially and on an ongoing basis.

*Trade Aggregation and Allocation.* CNH may (but is not obligated to) combine or "bunch" orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among AQR's Clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among CNH's Clients pro rata, based on original allocation to the purchase and sale orders placed for each Client on any given day. To the extent that CNH determines to aggregate Client orders for the purchase or sale of securities, including securities in which CNH's principal(s) and/or associated person(s) may invest, CNH shall do so in a fair and equitable manner. CNH shall not receive any additional compensation or remuneration as a result of the aggregation.

In the event that CNH determines that a pro rata allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be

purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, CNH may exclude the account(s) from the allocation and the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

## Item 13. Review of Accounts

CNH's portfolio managers, client administration analysts, and Compliance Department frequently communicate with the trading and research staff to review the status of, and to provide instructions or guidance concerning, pending transactions for, and overall performance of, each Client account. The level of review and guidance provided by CNH's senior investment personnel and analysts varies based upon facts and circumstances specific to individual Clients. Generally, a review of a Client account includes specific securities held, adherence to investment guidelines, and account performance.

Though CNH reviews client accounts on a regular basis, there are circumstances which prompt ad hoc reviews. Significant market events affecting the prices of one or more securities held by a Client; changes in investment objectives or guidelines of a particular Client; or specific arrangements with particular Clients or investors may trigger more frequent reviews of Client accounts.

Investors in Sponsored Funds are generally furnished: (i) as soon as practicable after the end of each fiscal year annual reports of the relevant Sponsored Funds that include audited financial statements prepared in accordance with United States generally accepted accounting principles or other acceptable accounting principle; and (ii) on a basis no less frequently than quarterly, unaudited reports on the operations of the relevant Sponsored Funds which may include a statement of the net asset value of the investor's interest in such Sponsored Fund(s). Investors in Sponsored Funds received reports from the Client pursuant to the terms of each Client's offering memoranda or investor side letter.

Investors participating in Managed Accounts advised by CNH receive regular reports from their custodian and may receive operational reports from CNH upon request.



## Item 14. Client Referrals and Other Compensation

CNH may receive certain research or other products or services from broker-dealers through soft-dollar arrangements. These soft-dollar arrangements create an incentive for the Adviser to select or recommend broker-dealers based on the Adviser's interest in receiving the research or other products or services and may result in the selection of a broker-dealer on the basis of considerations that are not limited to the lowest commission rates and may result in higher transaction costs than would otherwise be obtainable by CNH on behalf of its Clients. Please see Item 12 for further information on CNH's soft-dollar practices, including our procedures for addressing conflicts of interest that arise from such practices.

CNH may pay third parties cash compensation for investor referrals from CNH's own funds in amounts based upon a portion of the advisory or performance fees earned with respect to investors introduced by the third party. Such arrangements will be disclosed to Clients in accordance with Rule 206(4)-3 under the Advisers Act. The fact that CNH may share with third parties a portion of the compensation CNH receives for CNH's investment advisory services will not result in any Client being charged investment advisory fees at a rate in excess of the rate or level or advisory fee customarily charged by CNH to its investment advisory Clients for similar services to comparable accounts, nor will CNH charge any Client any other amount for the purpose of offsetting its cost of obtaining an account through a third party referral. CNH may also compensate broker-dealers for investor referrals by directing to such broker-dealers only those brokerage transactions effected by CNH as principal for its own proprietary trading account (and not those brokerage transactions effected by CNH as Adviser for a Client).

Employees of CNH may be compensated for referring investors to CNH or AQR Funds. Employees referring investors will receive a portion of the revenues generated from the management of the assets of the new investor and/or receive a commission. Any compensation provided will be consistent with Rule 206(4)-3 of the Advisers Act or other applicable law. The cost of these referral fees is paid entirely by CNH and is not borne by the referred Client.

## Item 15. Custody

CNH does not act as a custodian over the assets in the accounts we manage for our Clients (except as deemed a “custodian” by applicable law, as discussed below). Clients must make their own arrangements for custody of securities in their accounts. Such custodians may be broker-dealers, banks, trust companies, or other qualified institutions. The qualified custodian will typically provide the Client with at least quarterly account statements relating to the assets held within the account managed by CNH. Each Client should carefully review the qualified custodian’s statement upon receipt to determine that it completely and accurately states all holdings in the Client’s account and all account activity over the relevant period. Any discrepancies identified by a Client should be immediately reported to CNH and the qualified custodian.

In addition to the account statements provided by qualified custodians to our Clients, CNH also provides account statements to Clients and investors on a periodic basis, as agreed upon between the Client and the Adviser. As such, we encourage Clients to compare the statements provided to them by CNH against those provided to them by the qualified custodians who hold the assets of their accounts, and to report any questions, concerns, or discrepancies to both the Adviser and the qualified custodian promptly. Our statements may vary from custodial statements based on accounting procedures, reporting dates, and/or valuation methodologies of certain securities. However, please note that custodian statements reflect the official books and records for the accounts we manage.

## Item 16. Investment Discretion

CNH provides investment advisory services on a discretionary basis to Clients. Please see Item 4 for a description of any limitations Clients may place on the Adviser's discretionary authority.

Prior to assuming full discretion in managing a Client's assets, the Adviser enters into an investment management agreement or other agreement that sets forth the scope of the Adviser's discretion.

Unless otherwise instructed or directed by a discretionary Client, the Adviser has the authority to determine (i) the securities to be purchased and sold for the Client account (subject to restrictions on its activities set forth in the applicable investment management agreement and any written investment guidelines), and (ii) the amount of securities to be purchased or sold for the Client account. Because of the differences in Client investment objectives and strategies, risk tolerances, tax status and other criteria, there may be differences among Clients in invested positions and securities held. Portfolio managers submit an allocation statement to CNH's trading desk describing the allocation of securities to (or from) Client accounts for each trade/order submitted. Please see Item 12 for a description of CNH's trade aggregation and allocation procedures.

*New Issues.* On occasion, CNH will purchase a new issue, shares in an initial public offering ("IPO"), or shares in a secondary equity offering ("SEO") for accounts/funds and CNH may be unable to obtain sufficient securities to fill the orders for all the participating accounts/funds. For those accounts/funds participating in the purchase, CNH will use a method that ensures the fair treatment of all participating accounts/funds.

IPOs or SEOs will be allocated pro rata based on the participating portfolio's estimated net asset value targeting the IPO or SEO strategy. The IPO and SEO allocation is subject to an accounts/funds' investment objective. CNH's equity IPO/SEO allocation methodology may exclude accounts/funds from receiving IPO/SEO allocations if/when (i) an account/fund does not trade individual stocks; (ii) an IPO/SEO allocation is inconsistent with the investment objectives of the account/fund (e.g. certain IPOs or SEOs may be illiquid, of a small deal size, or an incompatible security type); (iii) an IPO/SEO allocation cannot be properly hedged in the account/fund using standard hedging techniques; (iv) an IPO/SEO allocation would add too much volatility to an account/fund, thereby altering the risk profile of the account/fund; (v) an IPO/SEO allocation would change the portfolio composition weighting in such a way as to corrupt the modeling process for that account/fund; (vi) the account/fund is a proprietary account; and/or (vii) the account/fund has a policy of not engaging in a specific or all IPO/SEOs. Benchmark driven accounts/funds would normally be precluded from participation in an IPO/SEO allocation because of one or a combination of items (ii), (iii), (iv), and/or (v).

above. Deviations from this policy must be approved by the CCO or designee in advance of a purchase.

In addition, certain investors in commingled investment funds and certain Client accounts may be considered “restricted persons” under rules issued by the Financial Industry Regulatory Authority (“FINRA”) and therefore precluded by members of the FINRA from receiving securities in certain public offerings.

As with IPOs and SEOs, convertible security new issues will not be allocated to accounts/funds that do not trade convertible securities and where a particular convertible security is inconsistent with account/fund’s investment objective (e.g. convertible security may be illiquid or of a small deal size).

New issue convertible securities will be allocated in a fair manner for eligible accounts/funds that avoids the number of odd-lots held by particular accounts/funds. Desired appetites for new issue convertible securities may vary among account/funds and are influenced by the following: if the issuance is inconsistent with the investment objectives of the account/fund; if the issuance cannot be properly hedged in the account/fund using standard hedging techniques; if the issuance adds too much volatility to the account/fund, thereby altering the risk profile of the account/fund; and/or if the issuance changes the account/fund’s composition and position weighting in such a way as to corrupt the desired characteristics of that account/fund.

*Cross Trades.* Cross trades occur when CNH arranges for the purchase and sale of a security between at least two Clients that are not proprietary accounts (i.e., principal trades) or any accounts that are managed pursuant to an agreement prohibiting such transactions. On occasion, where appropriate, CNH may effect cross transactions through unaffiliated broker-dealers between Clients in which one Client will purchase securities held by another Client. CNH enters into such transactions only when they are in compliance with the Advisers Act and Investment Company Act and any other applicable law, as well as when CNH deems the transaction to be in the best interests of both Clients and at an independently established price, and which CNH believes to constitute “best execution” for both parties. Neither CNH nor any related party receives any compensation in connection with such “cross” transactions.

There are generally two types of securities cross-trading transactions: direct cross-trades and brokered cross-trades. Direct cross-trades occur whenever an investment manager causes the purchase and sale of a particular security to be made directly between two or more accounts under its management without a broker acting as intermediary. Under this practice, the manager executes a securities transaction between its managed accounts without going into the open market - such as a national securities exchange (e.g., the New York Stock Exchange (“NYSE”) or an automated broker-dealer quotation system (e.g., “NASDAQ”).

Brokered cross-trades occur whenever an investment manager places simultaneous purchase and sale orders for the same security with an independent broker-dealer under

an arrangement whereby such broker-dealer will cross the transaction at a particular price and transaction cost. However, transactions executed through electronic crossing networks ("ECNs") are not considered cross transactions even when CNH places purchase and sale orders for the same security simultaneously, unless such orders are accompanied by instructions to the ECN to cross the transactions.

With respect to CNH's advisory and sub-advisory arrangements with registered investment companies, any cross trades with other accounts are conducted in compliance with Rule 17a-7 under the Investment Company Act. When conflicts arise with respect to cross trades, such trades are not allocated to benefit certain accounts, especially performance-based fee accounts, at the expense of other accounts managed by CNH absent full disclosure of CNH's allocation procedures and a legitimate rationale for the allocation that is unrelated to the nature of the advisory fee.

Principal transactions – or those transactions between a Client and a proprietary account, are not permitted without Client consent.

*Error Policy.* CNH classifies trade errors pursuant to its own standardized error correction policies and procedures as those errors that occur after the order is created and submitted by the investment management process. All other errors will be deemed as process errors. Errors caused by brokers or other third parties are not covered by this particular policy. If an error does occur, CNH will determine the overall impact of the error and will consider market conditions, investment guidelines and objectives and the level of deviation from prescribed practice. In the context of the items mentioned above and based on its judgment, CNH would determine whether to reimburse the account or use an error account, in accordance with the procedures appropriate for handling the error in question. Generally (with the exception of Series Fund), if an erroneous trade settles in a Client account, CNH will not reimburse the account.

However, if a Client incurs a loss due to CNH's breach of an agreement due to gross negligence, or breach of a regulatory requirement, CNH will make the Client whole based on the discernable net realized loss of the associated trade(s).

While CNH will attempt to correct the error promptly, correction of trade errors may be delayed in certain cases where investigation of the error is necessary or where consultation with a particular Client is sought. CNH will not use another Client's account to correct a trade error, nor will commission or "soft" dollars be used to correct adviser trading errors.

Where a third party's gross negligence or negligence results in a trading error that causes Client losses, CNH will seek to recover the amount of the losses from the third-party, although CNH is not responsible for ensuring that third-parties compensate Clients in such cases. CNH will take reasonable steps, short of instituting litigation or an arbitration proceeding, to recover the amount of losses resulting from a third party trading error. CNH will also promptly notify its Clients of the discovery of such trading error so that the Clients can decide on the appropriate action to take and to proceed with such action.

In that event, CNH will take all reasonable action to cooperate with the Clients as to any litigation or arbitration that is instituted by the Clients.

CNH may agree to comply with a specific Client's policies regarding the handling of trade errors that may be different from the policies set forth above.

## Item 17. Voting Client Securities

CNH's authority to vote proxies for its Clients is established by its investment advisory agreements or comparable documents. CNH has established proxy voting policies and procedures and the Compliance Department oversees the proxy voting process. The proxy voting procedures are designed to ensure that proxies are voted in the Clients' best interest. CNH will generally vote proxies according to the proxy voting guidelines developed by RiskMetrics Group - ISS Governance Services ("ISS") and adopted by CNH. ISS is an unaffiliated third party corporate governance research service that provides in-depth analyses of shareholder meeting agendas, vote recommendations, recordkeeping and vote disclosure services. In addition, the proxy voting policy includes guidelines for the Compliance Officer and General Counsel to follow if a material conflict of interest arises between CNH and/or its employees (including Compliance Officer and General Counsel), and its Clients to ensure any material conflict is resolved in the best interest of its Clients.

In certain circumstances, the Adviser's Clients are permitted to direct their votes in a particular solicitation. A Client that wishes to direct its vote in a particular solicitation shall give reasonable prior written notice to the CNH indicating such intention and provide written instructions directing CNH or ISS to vote in regard to the particular solicitation. Where such prior written notice is received, ISS will vote proxies in accordance with such written instructions received from the Client, provided that such instructions are provided to CNH in a timely manner.

Upon request, CNH will provide a Client with a copy of its proxy voting policies and procedures and information on how the Client's proxies were voted.

## Item 18. Financial Information

This Item is not applicable.