

Part 2A of Form ADV: Firm Brochure

## **AQR Capital Management, LLC**

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**April 30, 2015**

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

**Additional information about AQR 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**

This Part 2A of Form ADV (“Brochure”) was updated on April 30, 2015. Below is the list of material changes the Adviser has made since its last annual Form ADV filing on March 31, 2015.

The Adviser has updated Item 9 regarding disciplinary events involving AQR. Additionally, AQR has updated 10 to reflect the fact that RAIM CORP has assigned its interests in CNH Partners, LLC to CNH Capital Management, LLC.

## Item 3. Table of Contents

Item 2. Material Changes .....	2
Item 3. Table of Contents .....	3
Item 4. Advisory Business .....	4
Item 5. Fees and Compensation .....	6
Item 6. Performance Fees and Side-by-Side Management .....	10
Item 7. Types of Clients .....	12
Item 8. Methods of Analysis, Investment Strategies, and Risk of Loss.....	13
Item 9. Disciplinary Information .....	28
Item 10. Other Financial Industry Activities and Affiliation .....	29
Item 11. Code of Ethics, Participation or Interests in Client Transactions and Personal Trading.....	31
Item 12. Brokerage Practices .....	34
Item 13. Review of Accounts .....	40
Item 14. Client Referrals and Other Compensation .....	41
Item 15. Custody.....	43
Item 16. Investment Discretion .....	44
Item 17. Voting Client Securities .....	45
Item 18. Financial Information .....	47

## Item 4. Advisory Business

Founded in 1998, AQR is an investment adviser with its principal place of business in Greenwich, CT, USA. The Adviser commenced operations as an investment adviser in January 1998 and has been registered with the SEC since May 13, 1998. AQR Capital Management Holdings LLC (“AQR Holdings”) is the sole member of AQR. AQR Capital Management Group, L.P. (“AQR Group”) is the majority owner of AQR Holdings. Clifford S. Asness is the principal owner of the AQR Group.

AQR specializes in quantitative investment analysis, which relies on proprietary models, utilizing a set of valuation, momentum, and other factors, to generate views on securities and applying them in a disciplined and systematic process. AQR provides investment advice to its Clients (as defined below) on a variety of securities and instruments in accordance with agreed upon investment objectives and strategies.

AQR provides discretionary investment management services to registered investment companies (or mutual funds) sponsored by AQR (“AQR Funds”), as well as registered funds sponsored by advisers unaffiliated with AQR (“RICs”). AQR also provides investment advice to collective investment vehicles, private investment partnerships, and foreign investment companies (collectively, “Sponsored Funds”) and [to](#) separately managed accounts (“Managed Accounts,” and together with AQR Funds, RICs and Sponsored Funds, “Clients”).

AQR provides advice to Clients based on specific investment objectives and strategies. Under certain circumstances, AQR 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.

Affiliated Managers Group, Inc. (“AMG”), a publicly traded holding company, holds a minority interest in AQR Holdings. AMG holds other equity and financial interests in certain other investment advisers unaffiliated with AQR. AMG does not have a controlling interest in AQR Holdings or any role with respect to the day-to-day business of AQR and as such is not a control person.

AQR has an ownership interest in CNH Partners, LLC (“CNH”), a Delaware limited liability company and SEC-registered investment adviser (SEC Number 801-60678). CNH serves as sub-adviser to certain AQR Clients.

AQR also owns AQR Capital Management (Europe) LLP (“AQR Europe”), a UK limited liability partnership that is authorized by the UK’s Financial Conduct Authority (“FCA”) for various permissions (Firm FCA Ref. No. 567411).

Finally, AQR is the sole shareholder of AQR Re Management Ltd. (“AQR Re Management”), a Bermuda Exempted Company and Services Entity to certain Sponsored Funds.

For additional information regarding AMG, CNH, AQR Europe and AQR Re Management please see Item 10 below.

As of December 31, 2014, AQR had approximately \$122 billion Client assets under management<sup>1</sup>, all of which were managed on a discretionary basis.

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<sup>1</sup> Includes assets also sub-advised by CNH.

## Item 5. Fees and Compensation

As adviser to its Clients, AQR is compensated by various combinations of fixed asset-based fees and performance-based fees. As more fully described below, AQR may bill Clients in advance or in arrears, according to the terms of the pertinent investment contract. Under certain circumstances, the fees are negotiable.

The basic fee schedule for Sponsored Funds includes an annual fixed fee ranging from 0.0% to 2.50% of assets under management (including, but not limited to, cash balances and cash invested in money market funds, closed end funds, and ETFs), typically payable either monthly or quarterly in advance. The fee schedule may also include a performance fee of up to 30%. A performance fee (or performance allocation, as the case may be) 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 withdrawal/redemption fees, in accordance with the provisions of the applicable fund documentation. AQR and its affiliates reserve the right to enter into agreements with investors in Sponsored Funds to waive or modify the standard terms of such Sponsored 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 or relationship with AQR or its affiliates or their investment approach. Consequently, fees charged to individual investors in Sponsored Funds may deviate from the standard fees disclosed in a Sponsored Fund's offering documents.

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). Fees are based upon the fee methodology agreed to with each Managed Account. Managed Account advisory management fees generally range from 0.00% to 0.99% of assets under management (including, but not limited to, cash balances and cash invested in money market funds, closed end funds, and ETFs), payable at the end of either the month or the quarter. In addition, AQR and the Managed Account may agree upon a performance fee generally ranging from 5% to 30% of all net profits. When calculating net profits, performance fees may be based on absolute or benchmark relative returns and may be subject to high water marks. Depending on the characteristics of the account, fees are generally negotiable and may be higher or lower than the stated range.

Certain fee arrangements 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 AQR may enter into individual agreements with particular Clients or investors with respect to the timing of accruing any management fee. AQR may deduct the management and/or performance fee from a Sponsored Fund by instructing the Sponsored Fund's administrator and custodian. Managed Accounts, RICs, and AQR Funds may be invoiced for advisory fees or they may self-remit payment for those fees.

AQR provides advisory or sub-advisory services to certain registered investment companies – commonly known as mutual funds – sponsored by AQR and unaffiliated investment advisers and other financial institutions. AQR sponsors the AQR Funds, an open-end registered investment company organized as a Delaware statutory trust on September 4, 2008. As of March 31, 2015, the AQR Funds are composed of 33 different active series (each a "Series Fund").

Advisory fees for the AQR Funds range from 0.25% to 1.80% of assets under management. Detailed information concerning the AQR Funds is contained in each Series Fund's prospectus. A copy of a prospectus may be downloaded from <https://funds.aqr.com>. The AQR Funds are distributed by ALPS Distributors, Inc.

AQR also provides advisory or sub-advisory services to certain European collective investment schemes pursuant to the Undertakings for Collective Investment in Transferable Securities – commonly known as UCITS funds – sponsored by AQR and unaffiliated third parties. AQR sponsors the AQR UCITS Funds and AQR UCITS Funds II ("AQR UCITS"). Advisory fees for the AQR UCITS range from 0.25% to 1.30% of assets under management. More information about the AQR UCITS can be found at [www.aqrucits.com](http://www.aqrucits.com).

AQR's fees are exclusive of brokerage commissions, transaction fees, service provider fees, and other related costs and expenses which will be incurred by Clients. Execution of Client transactions typically requires payment of brokerage commissions by Clients. Please see Item 12 – Brokerage Practices below for a description of the factors that AQR considers in selecting counterparties 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, financial transaction 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, prime brokers, counterparties, third-party investment consultants, attorneys and other third parties, such as custodial fees, consulting fees, administrative fees, auditing fees, insurance fees, and transfer agency fees. Clients may also pay certain fees and/or expenses relating to governmental, regulatory, licensing, filing, or registration filings and their preparation, incurred in compliance with the applicable rules of any self-regulatory organization or any foreign, U.S. federal, state or local laws; to the extent permitted by applicable law, and subject to

applicable client documentation, legal fees and costs arising in connection with litigation or a regulatory investigation; and extraordinary expenses or costs that the Client may incur.

At times, AQR may invest Clients' assets in pooled investment vehicles sponsored by AQR or affiliated investment managers. AQR will waive or rebate to a Client its portion of any fees AQR or an affiliated investment manager would earn from the management of a Client's assets in such an investment vehicle. AQR may also invest a Client's assets in other funds managed by AQR or its affiliates on a fee-free basis to facilitate a fund's investment in certain trading strategies pursued by AQR. See Item 10 below for more information on fees related to investments in affiliated funds.

Certain of AQR's employees receive compensation directly in connection with the sale of shares of a Series Fund. See Item 10 below for a more detailed discussion of these AQR employees' role as registered representatives of ALPS Distributors, Inc.

Importantly, these employees sell only AQR Fund products; therefore, we do not believe their compensation structure gives rise to the traditional conflict of interest, where a broker or dealer may have an incentive to recommend some mutual funds over other mutual funds based on the compensation received, rather than on the investor's needs.

Certain of AQR's investment professionals are compensated based, in part, upon the revenue generated by specific AQR products. These compensation arrangements may create incentives for these investment professionals to take risks in managing assets that they would not otherwise take in the absence of such arrangements and to favor these products with investment opportunities, at the expense of other products not subject to this compensation arrangement. Please refer to Item 6 below for a description of AQR's procedures for addressing these potential conflicts.

*Side Letters.* For its Sponsored Funds, AQR has the absolute discretion to agree with investors in the Sponsored Funds ("Subscribers"), 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, fees, and transparency) with respect to a Subscriber, in accordance with its duties under the Investment Advisers Act of 1940 ("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, fees, and compensation transparency. In addition, AQR 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, favoring certain investors over others and may affect an investor's expectations as to a Subscriber's future return and risk.

AQR may provide Subscribers different levels of disclosure with respect to specific security positions, risk information 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 6. Performance Fees and Side-by-Side Management

### **Performance-Based Fees**

A performance fee (or performance allocation, as the case may be) is a fee paid to AQR based upon a percentage of the net profits of the account or fund 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. For some Client accounts managed in accordance with certain investment strategies, a performance fee represents all or a portion of AQR's standard fee arrangement, and AQR reserves the right to negotiate the rate of that performance fee with individual investors. For other Client accounts managed in accordance with certain investment strategies, AQR is compensated solely through a fixed asset-based fee (*i.e.*, fees based simply on the amount of assets under management in an account).

With respect to AQR's management of assets, performance fees may give rise to certain conflicts of interest. 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.

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

AQR's investment professionals may simultaneously manage multiple types of portfolios including RICs, the AQR Funds, 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 gives rise to the types of conflicts described above, as the fees for the management of certain types of products are higher than for others. Nevertheless, when managing the assets of such accounts, AQR has an affirmative duty to treat all such accounts fairly and equitably over time.

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 a registered investment adviser and a fiduciary, AQR exercises due care to ensure that investment opportunities are allocated equitably among all Clients, regardless of their corresponding fee structure. AQR has procedures designed and implemented in furtherance of its efforts to treat all portfolios fairly and equitably over time. By utilizing these procedures, AQR believes that portfolios that are subject to side-by-side management alongside other portfolios are receiving fair and equitable treatment

over time. Please see Item 12 below for a more detailed discussion of AQR's trade allocation and aggregation policy and procedures.

Although AQR has a duty to treat all portfolios fairly and equitably over time, such portfolios will not necessarily be managed the same at all times. Specifically, there is no requirement that AQR 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. AQR will not purchase or sell the same securities at the same time, in the same direction, or in the same proportionate amounts for all eligible portfolios, particularly if different portfolios have different amounts of investable cash available, different strategies, or different risk tolerances. In addition, some portfolios may purchase long positions in certain securities while other portfolios simultaneously sell short those same securities. As a result, although AQR 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.

## Item 7. Types of Clients

AQR provides investment management services to institutional investors, including, but not limited to, banks or thrift institutions; pension and profit sharing plans; trusts, estates, and charitable organizations; individuals; and corporations and other business entities, through separately managed accounts and collective investment vehicles, including, but not limited to, registered investment companies, private investment partnerships, collective investment trusts, and UCITS funds.

AQR's investment minimums vary according to product and strategy. Generally, AQR's Managed Account minimums range from \$50 million to \$100 million depending on the strategy. 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. The minimum investment required to invest in an AQR UCITS is typically 100,000 of the respective currency class and is more fully described in each fund's prospectus.

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

### *Methods of Analysis and Investment Strategies*

AQR is a discretionary asset management firm specializing in quantitative investment analysis.

Quantitative investment analysis is a method of evaluating securities and other assets by analyzing a large amount of data through the use of algorithms – or models – to generate an investment decision. Our models consider a wide breadth of factors – from traditional valuation measures, momentum indicators, and price signals, to textual analysis of financial reporting and terms of trade information. These diverse sets of inputs, combined with our proprietary signal construction methodology, optimization process, and trading technology, are the foundation of AQR’s investment process.

AQR performs research internally. Once we identify an investment opportunity, we begin the process of building a model to test the opportunity’s viability. The model building process generally consists of two steps: (1) generating a trading strategy; and (2) producing testable implications. AQR performs ongoing research to maintain the effectiveness of its models over time. External data (*i.e.*, Reuters, Bloomberg and other externally provided services) is used by AQR in developing its quantitative forecasting computer models.

In addition to quantitative investment analysis, AQR also utilizes hybrid strategies through a combination of quantitative and fundamental techniques. Our investment strategies include arbitrage strategies, equity strategies, global macro strategies, reinsurance, and risk parity. We offer these strategies through four broad product-types: long-only, relaxed constraint, risk parity, and absolute return. There are certain risks specific to firms specializing in quantitative investment analysis. Please see below a summary of some of the risks specific to quantitative investment managers.

*Long-Only.* Long-only products generally prohibit taking net short exposure in any individual stock and are measured against a benchmark.<sup>2</sup> AQR’s long-only products focus on a broad range of equity investment styles, including growth (involving the purchase of securities of corporations that have exhibited faster-than-average gains in earnings over the last few years and are expected to show high levels of profit growth), value (involving the purchase of securities whose shares appear underpriced by some form(s) of fundamental analysis) and core (a method of portfolio construction designed to minimize transaction costs, tax liability, and volatility while attempting to outperform a

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<sup>2</sup> “Net short exposure” is generally a situation where a manager has more short positions than long positions in a security or derivative. To give an example, if one buys nine shares of a stock, and then sells short 10 shares of the same stock, one has a “net short” position with respect to such stock.

pre-determined benchmark); specific ranges on the market capitalization scale, including small-cap, mid-cap, large-cap, or a blend of those three; and/or specific geographic areas, including international equity (equity markets outside the United States), global equity (equity markets around the world including the United States), and emerging markets.

*Relaxed Constraint.* In relaxed constraint products the long-only constraint is relaxed, and limited net shorting of individual stocks is permitted. These products provide long exposure and limited short exposure, focusing on the styles, ranges, and geographic areas described above, while maintaining approximately 100% net market exposure. As an example, a relaxed constraint 130/30 product will typically be long approximately 130% of the net asset value of the portfolio and short 30% of the net asset value of the portfolio for a net market exposure of approximately 100%. These strategies may employ securities as well as over-the-counter (“OTC”) derivatives.

*Absolute Return.* Absolute return products invest long and short, utilizing exchange traded securities and OTC derivatives. These products may take long and short positions and employ leverage.

*Risk Parity.* Risk parity products offer strategies where AQR pursues excess returns through investments in a large number of different asset classes and a wide range of geographic regions throughout the world. Excess return is the difference between an actual return and that of a riskless security, such as a U.S. government bond. These products provide long exposure to different risk premiums through the use of securities and OTC derivatives and employ leverage to scale exposures.

AQR’s primary investment strategies can be generally grouped into four broad categories: arbitrage, equity, global macro, and reinsurance strategies. An explanation of these categories is included below. AQR’s primary investment strategies are convertible arbitrage, merger arbitrage, global stock selection, statistical arbitrage, global asset allocation, managed futures, risk parity, and reinsurance. Each of these investment strategies is managed by a team of portfolio managers in a manner consistent with our approach to investing. A summary of each of AQR’s primary investment strategies follows the descriptions below.

*Arbitrage Strategies.* AQR’s arbitrage strategies attempt to take advantage of perceived price discrepancies of identical or similar financial instruments, in different markets or in different forms. The majority of these strategies are managed by CNH. CNH, in cooperation with AQR, manages convertible arbitrage and merger arbitrage strategies through a blend of fundamental and quantitative analysis.

- Convertible Arbitrage. AQR, through its affiliate CNH, pursues a convertible arbitrage strategy by investing in convertible securities trading at 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 may attempt to mitigate the various risks associated with investing in convertible securities through the implementation of appropriate hedges.

- Merger Arbitrage. AQR, through its affiliate CNH, pursues a merger arbitrage strategy by investing in shares of a “target” company in a proposed merger, takeover, or other reorganization between two companies. If the transaction is for the stock of the acquirer, AQR 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.

*Equity Strategies.* AQR’s equity oriented strategies attempt to take advantage of market inefficiencies that cause specific stocks to be underpriced or overpriced. Investment opportunities are identified using our proprietary stock selection models, which analyze multiple valuations, momentum, and other factors to generate views on stocks. Equity strategies focus on a broad range of equity investment styles, including growth, core, and value, as well as strategies designed to be “style-neutral.” Some strategies focus on specific ranges on the capitalization scale, from small-cap through large-cap, while other strategies focus on investment opportunities across multiple capitalization levels. Equity strategies may be global, multi-national, or focused on particular geographic regions or specific countries. These strategies are broadly diversified and aim to achieve their investment objectives over multiple time horizons. AQR’s equity oriented strategies include Global Stock Selection and Statistical Arbitrage.

- Global Stock Selection. AQR’s stock selection strategy relies on our proprietary quantitative models, which utilize a set of valuation, momentum, and other signals to generate a diversified portfolio of stocks. This strategy may be employed regionally or globally; is broadly diversified across industries; may invest in specific segments of the capitalization scale, or across multiple segments or the entire capitalization spectrum; and forecasts price movements over multiple time horizons. The global stock selection strategy invests primarily in global equities, but also may invest in a broad range of instruments, including securities, currencies, futures, and other derivative products.
- Statistical Arbitrage. AQR’s statistical arbitrage strategy provides long and short exposure to equities based on forecasts of short-term price movements. This strategy is implemented using primarily a combination of individual equities, total return swaps and stock index futures.

*Global Macro Strategies.* AQR’s macro strategies attempt to profit from dislocations in global equity, bond, currency, and commodity markets, including those driven by investors’ behavioral biases. Investment opportunities are identified using our proprietary quantitative forecasting models. Our macro strategies may take long and short positions and are primarily derivatives-based, global in nature, and diversified across multiple asset classes. AQR’s macro strategies include Global Asset Allocation and Managed Futures.

- Global Asset Allocation. AQR’s global asset allocation strategy attempts to anticipate global macroeconomic events through the use of our proprietary quantitative models to generate views on various assets classes such as equities,

fixed income, currencies, commodities, and others. This strategy provides long and short exposure to these asset classes as well as employs leverage.

- Managed Futures. AQR's managed futures strategy uses proprietary quantitative models to identify price trends in equity, fixed income, currency, and commodity instruments. Once a trend is determined, the strategy will take either a long or short position in the given instrument, implementing its view through exchange traded futures, futures related instruments, swaps, forwards, and options contracts across the four major asset classes identified above. Generally, the strategy will have exposure in long and short positions across all four major asset classes, but at any one time may emphasize one or two of the asset classes or a limited number of exposures within an asset class.
- Risk Parity Strategy. AQR's risk parity strategy attempts to achieve excess returns through investments in a large number of different asset classes and a wide range of geographic regions throughout the world. Excess return is the difference between an actual return and that of a riskless security, such as a US government bond. This strategy provides long exposure to different risk premiums broadly covering equities, government bonds, commodities, and credit. These include exposures to global developed and emerging stocks, developed and emerging government bonds and emerging currencies, global inflation protected bonds, high yield and investment grade credit, and commodities, among other exposures. AQR implements its risk parity strategy through the use of securities, derivatives, and currencies, and may employ leverage to scale exposures.

*Reinsurance*. In addition to the investment strategies described above, AQR (through an affiliate) also manages a reinsurance strategy. AQR's reinsurance strategy underwrites or invests in reinsurance contracts and other instruments that are exposed to a variety of natural and man-made insurance risk exposures, such as storms, earthquakes, fires, floods, aviation or marine accidents, crop insurance, and acts of terror, among other risk exposures. In exchange for bearing these risks, the strategy receives premiums from counterparties on a periodic basis. The strategy attempts to generate positive net income after payment of all losses and other expenses.

AQR implements its strategies primarily through the use of the following investment techniques and investment tools.

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

*Leverage*. Certain of AQR's strategies utilize varying amounts of leverage, which may involve 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 futures and short sales, as well as OTC derivatives like options, , swaps, and forwards, which enable



investors to gain exposure to assets whose value exceeds the amount of capital necessary to obtain such exposure.

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

*Repurchase Agreements.* Certain of AQR's strategies require the Adviser to utilize repurchase transactions. In a repurchase transaction, a Client acquires a security from an approved counterparty and simultaneously agrees to resell it to the approved counterparty, 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 AQR's strategies require the Adviser to utilize reverse repurchase transactions. In a reverse repurchase transaction, a Client sells a security to an approved counterparty and simultaneously agrees to repurchase it from the counterparty, 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 AQR's Clients may lend their portfolio securities to certain types of eligible borrowers in an attempt to increase their 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 may 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. AQR 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, a Client sells a security it does not own in anticipation that the market price of that security will decline. AQR utilizes short sales as a form of hedging to offset potential declines in long positions in similar securities; in order to maintain flexibility; and also to attempt to earn a profit.

***There can be no assurance that the objectives associated with any strategies described above will be met. At any time, AQR 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.***

#### *Investment Risks*

Some of the risks associated with AQR's investment strategies and the securities and other assets utilized to implement those strategies include, but are not limited to, those listed below.

*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 AQR 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 OTC derivative instruments which are inherently leveraged, and products with embedded leverage such as futures, 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 Clients to increase their 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 CFTC, NFA, the SEC, the National Futures Association ("NFA"), the Federal Reserve Board, the Comptroller of the Currency, foreign regulators, 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, AQR 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 AQR 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 a Client's portfolio and the value of its investments. In addition, the value of the Client'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. Clients could potentially incur a significant loss as a result of counterparty credit exposure should the counterparty fail to fulfill its obligations.

*Currency Risk.* Currency risk is the risk that changes in currency exchange rates will negatively affect securities denominated in, and/or receiving revenues in, foreign currencies. The liquidity and trading value of foreign currencies could be affected by global economic factors, such as inflation, interest rate levels, and trade balances among countries, as well as the actions of sovereign governments and central banks. Adverse changes in currency exchange rates (relative to the U.S. dollar) may erode or reverse any potential gains from investments in securities denominated in a foreign currency or may widen existing losses.

*Distressed Investments Risk:* The Adviser may utilize investments in distressed investments, which are issued by companies that are, or might be, involved in reorganizations or financial restructurings, either out of court or in bankruptcy. A Client's investments in distressed securities typically may involve the purchase of high-yield bonds, bank debt, corporate loans or other indebtedness of such companies. These investments may present a substantial risk of default or may be in default at the time of investment. The Client may incur additional expenses to the extent it is required to seek recovery upon a default in the payment of principal or interest on its portfolio holdings.

In any reorganization or liquidation proceeding relating to an investment, the Client may lose its entire investment or may be required to accept cash or securities with a value less than its original investment. Among the risks inherent in investments in a troubled issuer is that it frequently may be difficult to obtain information as to the true financial condition of the issuer. The Adviser's judgments about the credit quality of a financially distressed issuer and the relative value of its securities may prove to be wrong.

*Emerging Markets Investments.* Investing in the securities or other instruments of issuers located in non-U.S. countries may involve certain risks not typically associated with investing in established economies or securities markets. Such risks may include (i) the risk of nationalization or expropriation of assets and confiscatory or other taxation; (ii) social, economic and political instability, including war; (iii) dependence on exports; (iv) less liquidity of securities markets; (v) significant currency exchange rate devaluations, fluctuations, and declines against the U.S. dollar; (vi) potentially higher rates of inflation (including hyper-inflation) and rapid fluctuations in inflation; (vii) controls on foreign investment and limitations on repatriation of invested capital and the Client's ability to exchange local currencies for U.S. dollars; (viii) a higher degree of governmental involvement in and control over the economies; (ix) government decisions to discontinue support for economic reform programs and imposition of centrally planned economies; (x) differences in auditing and financial reporting standards which may result in the unavailability of material information about economies and issuers; (xi) less extensive regulatory oversight of securities markets; (xii) longer settlement periods for securities transactions; (xiii) less stringent laws regarding the protection of investors; (xiv) certain consequences regarding the maintenance of a Client's portfolio securities and cash with sub-custodians and securities depositories in such countries; (xv) difficulty in enforcing contractual obligations; (xvi) inexperience of financial intermediaries, lack of modern technology, and the lack of a sufficient capital base to expand business operations; and (xvii) less available information than is generally the case in the United States. All of the foregoing factors lead to greater market volatility.

*Equity Securities.* Equity securities fluctuate in value in response to many factors, including the activities, results of operations, and financial condition of individual companies; the business market in which individual companies compete; industry market conditions; interest rates; and general economic environments. In addition, events such as domestic and international political instability, terrorism and natural disasters may be unforeseeable and contribute to market volatility in ways that may adversely affect investments made by a Client.

*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. 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.

*Foreign Investments Risk.* Foreign investments often involve special risks not present in U.S. investments that can increase the chances that an investment will lose money. For example, a Client may hold its foreign securities and cash in foreign banks and securities depositories, which may be recently organized or new to the foreign custody business and subject to only limited or no regulatory oversight. Changes in foreign currency exchange rates can affect the value of a portfolio. The economies of certain foreign markets may not compare favorably with the economy of the United States, and the governments of certain countries may prohibit or impose substantial restrictions on foreign investments in their capital markets or in certain industries. Many foreign governments do not supervise and regulate stock exchanges, brokers, and the sale of securities to the same extent as does the United States and may not have laws to protect investors that are comparable to U.S. securities laws. Settlement and clearance procedures in certain foreign markets may result in delays in payment for or delivery of securities not typically associated with settlement and clearance of U.S. investments.

*Futures Contracts Risks.* Futures prices are highly volatile. 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. 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. 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. 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 their principals may be aggregated with positions of each Client 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.

*General Risks of Derivatives Use.* Derivatives trading can be 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. 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. Due to the low margin deposits normally required in derivatives trading, an extremely high degree of leverage is typical of a derivatives trading account. As a result, a relatively small price movement in a derivatives contract price may result in substantial losses to a portfolio. Like other leveraged investments, any purchase or sale of a derivatives contract may result in losses in excess of the amount invested. Accordingly, relatively small derivatives positions have the potential to erode significantly or erase gains in other investments held by a portfolio.

*Hedging.* There can be no assurances that a particular hedge is appropriate or that certain risk is measured properly. Further, while AQR 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 Client portfolios than if AQR 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 may be 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. AQR 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 AQR 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 AQR.

*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, AQR 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 the Adviser’s credit risk to those counterparties.

*Off-Balance Sheet Risk.* In the normal course of business, AQR 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, AQR 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 effected 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 AQR's investment strategy and perception of market direction. In addition, global regulatory prohibitions on short sales may impair AQR'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.* AQR may make use of swaps and other forms of derivative contracts. In general, a derivative contract (including options, as described above) 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 AQR may be privately negotiated in the OTC 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.

The following risks relate to the Adviser's quantitative and statistical methods of analysis.

*Operational Risk.* AQR has developed systems and procedures to control operational risk. Operational risks arising from mistakes made in the confirmation or settlement of transactions, from transactions not being properly booked, evaluated, or accounted for, or other similar disruption in the Adviser's operations may cause the Adviser to suffer



financial loss, the disruption of its business, liability to Clients or third parties, regulatory intervention, or reputational damage. AQR relies heavily on its financial, accounting, and other data processing systems. The ability of its systems to accommodate an increasing volume of transactions could also constrain the Adviser's ability to properly manage a Client's portfolio.

*Trading Judgment.* The success of the proprietary valuation techniques and trading strategies employed by AQR is subject to the judgment and skills of the portfolio managers and research teams. Additionally, the trading abilities of the portfolio management team with regard to execution and discipline are important to a Client's performance. There can be no assurance that the investment decisions or actions of the portfolio managers or the firm's researchers will be correct. Incorrect decisions or poor judgment may result in substantial losses to a Client.

*Trading Decisions Based on Quantitative and Other Analysis.* AQR's portfolio management and trading decisions are based on quantitative models, signals, and other analyses. Any factor that would lessen the prospect of major trends occurring in the future (such as increased governmental control of, or participation in, the financial markets) may reduce the prospect that a particular trading method or strategy will be profitable in the future. In the past, there have been periods without discernible trends and, presumably, such periods will continue to occur in the future. Moreover, any factor that would make it more difficult to execute trades at desired prices in accordance with the signals of the trading method or strategy (such as a significant lessening of liquidity in a particular market) would also be detrimental to profitability. Further, many advisors' trading methods utilize similar analyses in making trading decisions. Therefore, bunching of buy and sell orders can occur, which makes it more difficult for a position to be taken or liquidated. No assurance can be given that the Adviser's strategies will be successful under all or any market conditions.

*Model and Data Risk.* Given the complexity of AQR's investment strategies, the Adviser relies heavily on quantitative models (both proprietary models developed by the Adviser, and those supplied by third parties) and information and data supplied by third parties ("Models and Data"). Models and Data are used to construct sets of transactions and investments, to value investments or potential investments (whether for trading purposes, or for the purpose of determining the net asset value of a Client account), to provide risk management insights, and to assist in hedging the Clients' investments. When Models and Data prove to be incorrect or incomplete, any decisions made in reliance thereon expose Clients to potential risks. Similarly, any hedging based on faulty Models and Data may prove to be unsuccessful.

Some of the models used by AQR are predictive in nature. The use of predictive models has inherent risks. For example, such models may incorrectly forecast future behavior, leading to potential losses on a cash flow and/or a mark-to-market basis. In addition, in unforeseen or certain low-probability scenarios (often involving a market disruption of some kind; for instance, major earthquakes or terrorist attacks), such models may produce unexpected results, which can result in losses to a Client's portfolio. Furthermore, because predictive models are usually constructed based on historical data supplied by

third parties, the success of relying on such models may depend heavily on the accuracy and reliability of the historical data. All models rely on correct market data inputs. If incorrect market data is entered into even a well-founded model, the resulting valuations will be incorrect. However, even if market data is input correctly, “model prices” will often differ substantially from market prices, especially for securities with complex characteristics, such as derivative instruments.

*Obsolescence Risk.* AQR’s strategies are unlikely to be successful unless the assumptions underlying the models used to implement those strategies are realistic and either remain realistic and relevant in the future or are adjusted to account for changes in the overall market environment. If such assumptions are inaccurate or become inaccurate and are not promptly adjusted, it is likely that profitable trading signals will not be generated. If and to the extent that the models do not reflect certain factors, and AQR does not successfully address such omission through its testing and evaluation and modify the models accordingly, major losses may result. AQR will continue to test, evaluate, and add new models, as a result of which the existing models may be modified from time to time. There can be no assurance as to the effects (positive or negative) of any modification on a Client’s portfolio.

*Crowding/Convergence.* There is significant competition among quantitatively-focused managers. To the extent that AQR’s models come to resemble those employed by other managers, the risk that a market disruption that negatively affects predictive models will adversely affect a Client is increased, as such a disruption could accelerate reductions in liquidity or rapid repricing due to simultaneous trading across a number of funds in the marketplace.

*Risk of Programming and Modeling Errors.* AQR’s research and modeling process is extremely complex and involves financial, economic, econometric and statistical theories, research and modeling; the results of that process must then be translated into computer code. Although AQR seeks to hire individuals skilled in these functions and to provide appropriate levels of oversight, the complexity of the individual tasks, the difficulty of integrating such tasks, and the limited ability to perform “real world” testing of the end product raises the chances that the finished model may contain an error. One or more of such errors could adversely affect a Client’s portfolio and would generally not constitute a trade error subject to reimbursement under AQR’s policies.

*Involuntary Disclosure.* As described above under “Model and Data Risk” and “Crowding/Convergence,” AQR’s ability to achieve its Client’s investment objective is dependent in large part on its ability to develop and protect its models and proprietary research. The proprietary research and the Models and Data are largely protected by AQR through the use of policies, procedures, agreements, and similar measures designed to create and enforce robust confidentiality, non-disclosure, and similar safeguards. However, extensive position-level public disclosure obligations (or disclosure obligations to Clients, exchanges, or regulators with insufficient privacy safeguards) could lead to opportunities for competitors to reverse-engineer strategies, and thereby impair the relative or absolute performance of a Client’s portfolio.

*Proprietary Trading Methods.* Because AQR's trading methods are proprietary, a Client will not be able to determine any details of such methods or whether they are being followed.

## Item 9. Disciplinary Information

It was alleged that as of the close of business on September 6, 2012 AQR violated futures contract position limits set by the CME Group in connection with the trading of European Gasoil Bullet Futures. It was further alleged that as of the close of business on January 15, 2013 AQR violated futures contract position limits set by the CME Group in connection with the trading of Crude Oil Financial Futures. On March 27, 2013 (and effective as of April 1, 2013), AQR voluntarily agreed, without admitting or denying any allegations, to a settlement with the New York Mercantile Exchange (“NYMEX”) Business Conduct Committee related to NYMEX Rule 562. AQR’s settlement consisted of the payment of \$85,000 to NYMEX.

It was alleged that on April 17, 2013 AQR violated futures contract position limits set by the CME Group in connection with the trading of Soybean Futures. On September 9, 2013 (and effective as of October 24, 2013), AQR voluntarily agreed, without admitting or denying any allegations, to a settlement with the Chicago Board of Trade (“CBOT”) Business Conduct Committee related to CBOT Rule 562. AQR’s settlement consisted of the payment of \$70,000 and a disgorgement of profits in the amount of \$925, both of which were paid to CBOT.

In May 2014 and July 2014, AQR notified the Swedish Financial Supervisory Authority (the “SFSA”) of net short positions in two Swedish issuers pursuant to the Regulation (EU) No. 236/2012 of the European Parliament and of the Council on short selling and certain aspects of credit default swaps (the “EU SSR”). These notifications were made unintentionally later than the next-day notification deadline specified in the EU SSR. In both cases, the delayed notifications were the result of unintentional error, and AQR submitted the notifications to the SFSA after AQR’s discovery of the issue. On April 2, 2015, AQR received notice that the SFSA had decided to impose a special fee of approximately US \$2,300 and US \$30,000 for the late notifications with respect to these two issuers. On May 25, 2015, the decision will become legally binding. AQR will pay the special fees following the issuance of invoices by the SFSA.

In June 2014 and October 2014, AQR notified the Netherlands Authority for the Financial Markets (“AFM”) of net short positions in two Dutch issuers pursuant to the EU SSR. These notifications were made unintentionally later than the notification deadline specified in the EU SSR. In both cases, the delayed notifications were the result of unintentional error, and AQR submitted the notifications to the AFM after AQR’s discovery of the issue. On April 28, 2015, AQR received a legally binding notice that the AFM had decided to impose a total administrative fine of EUR 500,000 for the late notifications with respect to these two issuers. AQR will file an objection with the AFM.

## Item 10. Other Financial Industry Activities and Affiliation

*Broker-Dealer Registration Status.* In connection with the sale of shares of the AQR Funds, certain AQR employees are registered representatives of ALPS Distributors, Inc., an unaffiliated, third-party broker-dealer.

*CFTC Registration Status.* AQR is registered with the CFTC as a commodity pool operator and commodity trading adviser and is a member of NFA.

*Material Relationships or Arrangements with Industry Participants.* AQR and CNH Capital Management, LLC (“CNH CM”) are members of CNH, a Delaware limited liability company and SEC-registered investment adviser (SEC Number 801-60678) controlled by Mark Mitchell and Todd Pulvino. CNH provides discretionary investment management services, specializing in global merger arbitrage, global convertible arbitrage, and other event driven strategies. CNH serves as sub-adviser to certain AQR Clients, including certain series of the AQR Funds. CNH utilizes the infrastructure of AQR for non-portfolio management functions.

CNH CM is not a registered investment adviser and does not have investment management agreements or discretionary authority over AQR or CNH Clients. AQR does employ CNH CM to perform research and investment management support services.

Mark L. Mitchell, a Principal of CNH CM, is on the Board of Directors of TD Ameritrade, Inc., a publicly traded company. Mr. Mitchell’s Board membership is independent of AQR and CNH. However, AQR and CNH restrict transactions with TD Ameritrade Holding Corp (AMTD).

AQR Holdings is the sole managing member of AQR and AQR Capital Management II, LLC (“AQR II”). AQR, AQR II, and CNH act as general partners or investment advisers to certain Sponsored Funds formed as limited partnerships or investment-related limited liability companies.

AQR or affiliated entities may from time-to-time serve as the investment adviser 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 AQR-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.

AQR, where appropriate, may recommend that one or more Sponsored Funds or AQR Funds invest in other Sponsored Funds or AQR Funds, including funds managed or sub-advised by CNH. Investments in affiliated funds may be made through either the Master

and/or Feeder Fund or one or more of the Series Funds. AQR waives its portion of fees on the value of a Sponsored Fund's investment in funds managed or sub-advised by CNH, but CNH CM, with whom AQR shares an interest in CNH, does not waive its portion of fees. AQR may also employ CNH CM to perform research and investment management support services. CNH CM may be compensated directly by Sponsored Funds.

AQR serves as the investment adviser to, and a related person serves on the Board of Trustees of, the AQR Funds, an open-end management investment company organized as a Delaware statutory trust on September 4, 2008. Subject to the overall authority of the Board of Trustees, AQR furnishes continuous investment supervision and management to the AQR Funds' portfolios and also furnishes office space, equipment and management personnel. CNH serves as the sub-adviser for the AQR Diversified Arbitrage Fund and the AQR Multi-Strategy Alternative Fund.

AQR is the sole shareholder of AQR Pty Limited, an Australian propriety company domiciled in Sydney, Australia. AQR Pty Limited provides AQR with investment management marketing services in Australia.

AQR is the sole subscriber to AQR Capital Management (UK Services) Limited ("AQR UK"), a United Kingdom private limited company incorporated on May 10, 2012 in England and Wales. AQR UK is the managing member of AQR Europe, a limited liability partnership domiciled in England and Wales and formed on May 12, 2012. AQR Europe is authorized and regulated by the FCA for the purposes of The Financial Services and Markets Act 2000. AQR Europe is licensed to (a) arrange deals in noninvestment insurance contracts ("Designated Investments"); (b) make arrangements with a view to transactions in Designated Investments; (c) advise on Designated Investments; and (d) carry on a regulated activity where the regulated activity is one of those in (a) to (c) above. AQR Europe is the sole member of AQR Capital Management (DK Service) Aps ("AQR DK Service") a Danish private limited company incorporated on July 1, 2012, and domiciled in Denmark. AQR DK Service provides AQR with research services in Denmark.

AQR is the sole shareholder of AQR Re Management, a Bermuda exempted company domiciled in Hamilton, Bermuda. AQR Re Management provides AQR with origination and underwriting services for the reinsurance portfolios of various Sponsored Funds.

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

*Code of Ethics.* AQR's officers, principals, and employees (including members of their households) (collectively "Covered Persons") must abide by AQR'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 Material Non-Public Information.

The General Standards section describes the antifraud provisions and the reporting of conflicts of interest. It also details AQR's enforcement of its fiduciary duty and the policies and procedures contained in AQR's Compliance Manual.

Covered Persons are permitted to invest in their personal trading accounts, subject to certain restrictions, and may in certain circumstances invest in the same or related securities as AQR or an affiliate invests in for AQR Clients, including in some instances doing so at or about the same time as a Client transaction is affected. AQR has adopted the Personal Trading Policies in order to reduce conflicts of interest that may arise between Client accounts and the personal trading activities of Covered Persons. Covered Persons must adhere to AQR's anti-front running requirements. The Personal Trading Policies, among other things, also prohibit certain personal transactions, impose restrictions on other personal trades, require Covered Persons to pre-clear certain personal trades, and require Covered Persons to make certain reports regarding their personal trading.

AQR's Policy to Prevent the Misuse of Material Non-Public Information prohibits employees from purchasing or selling securities while in possession of material non-public information ("MNPI") and prohibits employees from disclosing MNPI to any person, including, but not limited to, family members.

AQR is firmly committed to making our employees (both current and prospective) aware of the requirements within AQR's Compliance Manual, which also contains the firm's Code. All AQR employees are provided with a copy of the Compliance Manual at the time of hire and annually thereafter, and each employee must affirm that he or she has received a copy of the Compliance Manual and has read and understands its provisions. Additionally, AQR conducts periodic compliance training that addresses the requirements of the Compliance Manual and the other policies described in this Item.

Clients or prospective Clients may obtain a copy of the compliance manual upon request.

*Client Transactions in Securities Where Adviser has a Material Financial Interest.* AQR, where appropriate, may recommend that one or more Sponsored Funds or AQR Funds invest in other Sponsored Funds or AQR Funds, including funds managed or sub-advised

by CNH. These practices create a conflict of interest because AQR or a 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.

Investments in affiliated funds may be made through either the Master and/or Feeder Fund or one or more of the Series Funds. AQR waives its portion of fees on the value of a Sponsored Fund's investment in feeder funds managed sub-advised by CNH, but CNH CM, with whom AQR shares an interest in CNH, does not waive its portion of fees. AQR may also employ CNH CM to perform research and investment management support services. CNH CM may be compensated directly by Sponsored Funds.

*Investing in Securities Recommended to Clients.* When AQR determines that it would be appropriate for one or more Sponsored Funds, Series Funds, or other Clients, including its own proprietary accounts, to participate in an investment opportunity, AQR will seek to execute orders for all of the participating accounts, including its own account, on an equitable basis.

Subject to applicable laws and/or Client restrictions, AQR may instruct on the purchase, sale or holding of a certain security or securities for a Client or proprietary account while also instructing other Client or proprietary accounts to enter into a different or opposite investment decision regarding the same security or securities. Hence, AQR may direct the 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. Additionally, certain Clients may take an opposite investment position (*i.e.*, a long position versus a short position) in the same security held by other Clients.

AQR will allocate investment opportunities and trades fairly. "Fair" treatment does not mean identical treatment of all Clients. Rather, it means that AQR does not discriminate on an impermissible basis against one Client or group of Clients. When AQR transacts in securities for more than one account, the investment opportunities and trades must be allocated in a manner consistent with AQR's 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 AQR and/or CNH. From time to time, AQR or a related person may buy or sell securities for Clients at or about the same time that AQR 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 might result in an economic benefit for AQR or its related persons to the detriment of a Client, AQR has adopted the trade aggregation and allocation policies and procedures discussed in Item 12 below.



*Insider Trading/Material Non-Public Information.* All AQR employees are subject to AQR's Policy to Prevent the Misuse of Material Non-Public Information, included as part of AQR's Code. The policy broadly prohibits the use of MNPI, and includes policies and procedures prohibiting the use of MNPI 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 MNPI, AQR maintains a "restricted list" that identifies any securities that cannot be purchased for employee, Client, or firm-owned accounts because MNPI may have been received by an employee. 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

AQR is responsible for the placement of 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 AQR in its sole discretion without the consent of the Clients. Each counterparty is first reviewed by the Adviser's Counterparty Committee, which was established to assess the creditworthiness of these counterparties on an ongoing basis. Only after due diligence is complete will the Counterparty Committee vote to approve a counterparty.

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

- AQR may invest Client assets in securities issued by counterparties or their affiliates.
- AQR may provide investment management services to certain counterparties or their affiliates.
- Certain counterparties may provide both internally-generated and third-party research to AQR, as part of a bundled service.
- Certain counterparties may refer prospective clients to AQR or may invest themselves in AQR's products.

Notwithstanding such relationships or business dealings with these counterparties, AQR has a fiduciary duty to Clients to seek best execution when trading with these firms and has implemented policies and procedures to monitor its efforts in this regard.

### *Selection Factors for Counterparties*

Best Execution. Clients often grant AQR or its affiliates the authority to select the counterparty to be used for the purchase or sale of securities and investments. Consequently, AQR 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, AQR 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 AQR's other selection criteria.

Commission Rates. Recognizing the value of these factors, AQR may select counterparties that charge a commission in excess of that which another counterparty might have charged for effecting the same transaction. AQR is not obligated to choose the counterparty offering the lowest available commission rate if, in AQR'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 counterparty.

Consequently, AQR 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 investment and research information or to pay higher commissions to such firms if AQR 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. AQR 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 AQR, and AQR's fee is not reduced as a consequence of the receipt of such supplemental research information. Research services provided by counterparties used by a particular Client may be utilized by AQR or its affiliates in connection with its investment services for other accounts, and, likewise, research services provided by counterparties used for transactions of other accounts may be utilized by AQR in performing its services for the Client. 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.

AQR may also engage in agency transactions in OTC 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.

Review of Counterparty Execution. AQR has implemented 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, AQR 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 AQR has been paying higher commission rates for its transactions, AQR will determine if the quality of execution and the services provided by the counterparty justify these higher commissions.

AQR's Best Execution Committee monitors best execution. The Best Execution Committee reviews commission rates by broker, country, and investment type and 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 Committee reviews credit quality and operational viability of the Adviser's clearing and execution counterparties.

Directed Brokerage. AQR generally does not recommend, request, or require that Clients direct AQR to execute transactions through a specified counterparty. However, from time to time a Client may direct AQR to use a particular counterparty for all or a percentage of trades (a "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 AQR's practice not to negotiate commission rates with directed counterparties unless expressly requested by the Client.

Clients with directed brokerage arrangements thus should consider the following: they may pay higher commissions on some transactions than might be attained by AQR or receive less favorable execution on some transactions, or both; they may not be able to participate in the allocation of New Issues; AQR may not begin to execute transactions with directed counterparties until non-directed brokerage orders are completed; and they may not generate returns equal to those Clients that do not have directed brokerage arrangements. Further, Clients who designate the use of particular counterparties should understand that they may lose the possible advantage which non-designating Clients derive from aggregation of orders for several Clients as a single transaction for the purchase or sale of a particular security. Accordingly, a Client with a directed brokerage arrangement should determine whether or not the specified counterparty could provide adequate price and execution for its transactions.

Prime Brokerage. Many Clients have one or more prime brokers through which the Client's trade clearance and financing is coordinated. Prime brokers may also provide AQR with research, reporting, and analysis tools as part of their services. In addition, a prime broker may host conferences and events through which AQR may identify potential investors.

Step-Outs. AQR may use "step-out trades" when AQR determines that it may facilitate better execution for certain Client trades. Step-out trades are transactions which are placed at one counterparty and then "given up" or "stepped out" by that counterparty to another counterparty. Step-out trades may benefit the Client by finding a natural buyer or seller of a particular security so that AQR can trade a larger block of shares more efficiently. Unless directed otherwise by the Client, AQR 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' accounts. Under no circumstances shall any AQR 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 prior approval from the Best Execution Committee.

Section 28(e) of the Securities Exchange Act of 1934 (“Section 28(e)”) 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. If such determination is made, it is considered compliant for the money manager to “pay up” for research services.

Although AQR does not anticipate using soft dollars, if AQR decides to do so in the future, AQR would utilize only those services that would be within the safe harbor afforded by Section 28(e), such that credits generated by AQR’s Clients would only be used to obtain investment research and brokerage services that provide lawful and appropriate assistance to AQR in the performance of its investment decision-making responsibilities.

Although AQR does communicate trades to brokers through broker-provided interfaces, it currently does not have soft dollar arrangements. However, AQR may receive proprietary research and brokerage services, within the meaning of Section 28(e), from certain counterparties that execute trades for AQR’s Clients. Proprietary research generally includes access to company executives, conferences, analysis, forecasts, and in-house research. This type of research does not have an identifiable value and is provided based on AQR’s total client trading activity or by simply opening an account. AQR does not view such services and research as soft dollar arrangements.

Receipt of such services and research may create an incentive for AQR to select or recommend counterparties based on AQR’s interest in receiving the research or other products or services, may result in the selection of counterparties 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 AQR on behalf of its Clients. However, as discussed above, AQR has a duty to seek overall best execution of transactions for Client accounts and has instituted internal controls and procedures designed to ensure that AQR is receiving best execution for Client transactions over time, taking into account all pertinent factors.

#### *Trade Aggregation and Allocation*

As discussed in Item 6 above, 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 a registered investment adviser and a fiduciary, AQR exercises due care to ensure that investment opportunities are allocated equitably among all Clients, regardless of their corresponding fee-structure. Towards this end, AQR 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 AQR’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 with similar objectives or are traded individually.

If AQR has determined to invest at the same time for more than one of the accounts, AQR may (but is not obligated to) aggregate or “bunch” orders to obtain best execution, negotiate more favorable commission rates, or 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 aggregation procedure, transactions will generally be averaged as to price and allocated among AQR’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 AQR determines to aggregate Client orders for the purchase or sale of investments, including investments in which AQR’s principal(s) and/or associated person(s) may invest, AQR shall do so in a fair and equitable manner. AQR shall not receive any additional compensation or remuneration as a result of the aggregation.

If an aggregate order on behalf of more than one account cannot be fully executed under prevailing market conditions, AQR 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 purchase (sale) of securities by more than one account, the average price per unit acquired (sold), which may be higher (lower) 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.

In the event that AQR determines that a *pro rata* allocation for partially executed aggregate orders 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) an allocation may be given to an account when the account has limitations in its investment guidelines which prohibit it from purchasing other securities that 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, AQR 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.

AQR’s Compliance Department monitors the allocation of investment opportunities by utilizing reports, produced daily or on an as-needed basis. AQR 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 AQR.

*Cross Trades.* Cross trades occur when AQR arranges for the purchase and sale of a security between certain types of Client accounts at an AQR specified price. Under certain conditions, AQR may enter into cross trades provided they are executed in compliance with the Advisers Act and, if pertinent, the Investment Company Act of 1940.

*Opposing Orders in the Same Security (“Netting Trades”).* Netting trades occur when AQR submits simultaneous buy and sell orders for two or more Clients to a counterparty for execution. The counterparty executes the portion that cannot be offset amongst the buy and sell orders and assigns the buy and sell orders the same execution price for the entire transaction. AQR believes such netting trades reduce the market impact of the trades and therefore provide best execution for the Clients.

*Trade Error Policy.* AQR 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, AQR 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, AQR 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, AQR will not reimburse the account.

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

While AQR 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. AQR 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.

AQR 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 13. Review of Accounts

AQR's portfolio managers, client administration analysts, and Compliance Department frequently communicate with the trading and portfolio management 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 AQR's portfolio management personnel 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.

Although AQR 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.

In addition, various strategy-specific investment committees of the firm are responsible for monitoring investment strategies employed by the respective portfolios. These committees generally have an overall responsibility for monitoring the portfolios' investments and the efficacy of those investments.

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 Fund(s) that include audited financial statements prepared in accordance with U.S. generally accepted accounting principles or other acceptable accounting principles; and (ii) on a basis no less frequently than quarterly, unaudited reports on the operations of the relevant Sponsored Fund(s) which may include a statement of the net asset value of the investor's interest in such Sponsored Fund(s). Investors in Sponsored Funds receive reports from AQR pursuant to the terms of each Client's offering memoranda or investor side letter.

Investors participating in Managed Accounts advised by AQR receive regular reports from their custodian and may receive operational reports from AQR upon request or as required in the investment management agreement.

Investors in AQR UCITS receive regular reports from AQR in accordance with the principles established in the UCITS directives.



## Item 14. Client Referrals and Other Compensation

### **Relationships with Consultants**

Many of our Clients and prospective Clients retain investment consultants to advise them on the selection and review of investment managers. AQR may have certain Clients that were introduced to us through consultants. These consultants or their affiliates may, in the ordinary course of their investment consulting business, recommend AQR's investment advisory services or otherwise place AQR into searches or other selection processes for a particular client.

AQR has extensive dealings with investment consultants, both in the consultants' role as adviser for their clients and through independent business relationships. Specifically, we provide consultants with information on portfolios we manage for our mutual clients, pursuant to our Clients' directions. AQR also provides information on our investment styles to consultants, who use that information in connection with searches they conduct for their clients. AQR may also respond to "Requests for Proposals" from prospective clients in connection with those searches.

Clients obtained from these consultants may instruct AQR to direct some or all of their brokerage transactions to these consultants, which may also be broker/dealers, or to the particular broker/dealers with whom they have relationships. In the alternative, AQR may simply choose to allocate brokerage to such consultants or broker/dealers.

- AQR may invite consultants to events or other entertainment hosted by AQR.
- AQR may pay registration or other fees for the opportunity to participate, along with other investment managers, in consultant-sponsored industry forums or conferences. These conferences or forums provide AQR with the opportunity to discuss a broad variety of business topics with consultants, clients, and prospective clients.
- In some cases, AQR may serve as investment adviser for the proprietary accounts of consultants or their affiliates or as adviser or sub-adviser for funds offered by consultants and/or their affiliates.

In general, AQR relies on each consultant to make appropriate disclosure to its clients of any conflict that the consultant may believe to exist due to its relationship with our firm.

### **Relationships with Brokers**

As discussed above, AQR currently does not have soft dollar arrangements. However, AQR may receive research and brokerage services from certain counterparties that execute trades for AQR's Clients and make take receipt of such services into account

when selecting counterparties. AQR has a duty to seek overall best execution of transactions for Client accounts and has instituted internal controls and procedures designed to ensure that AQR is receiving best execution for Client transactions over time, taking into account all pertinent factors. Please see Item 12 for further information on AQR's soft dollar practices.

### **Other Relationships**

AQR may pay third parties cash compensation for investor referrals from AQR's own resources in amounts based upon a portion of the advisory or performance fees earned with respect to investors introduced by the third party. The fact that AQR may share with third parties a portion of the compensation AQR receives for AQR'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 AQR to its investment advisory Clients for similar services to comparable accounts, nor will AQR charge any Client any other amount for the purpose of offsetting its cost of obtaining an account through a third party referral.

AQR is a party to Client Service/Marketing Agreement(s) with one or more subsidiaries of AMG, under which the AMG subsidiaries market certain of AQR's investment strategies to wholesale clients and provide client services to AQR's Clients in certain countries. AQR pays the AMG subsidiaries a fee for these services.

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

## Item 15. Custody

AQR does not have physical custody of any Client assets.

Pursuant to Rule 206(4)-2 of the Advisers Act, AQR is deemed to have custody of Sponsored Funds' assets by virtue of its or its affiliates' role as general partner of private investment partnerships and/or sponsor of collective investment vehicles. AQR does not have actual physical custody of any client assets or securities invested in such funds; rather, all such assets are held in the name of each of the applicable funds by an independent qualified custodian. Such funds are audited annually, and investors receive annual financial statements within 120 days following such Sponsored Fund's fiscal year end, as required by applicable law.

Investors who have not received audited financial statements in a timely manner should contact AQR immediately.

AQR does not have custody of the assets of the Managed Accounts. Managed Accounts must make their own arrangements for custody of securities. Such custodians may be broker-dealers, prime brokers, banks, trust companies, or other qualified institutions. The qualified custodian will typically provide the Managed Account with at least quarterly account statements relating to the assets held within the account advised by AQR. Each Managed Account should carefully review the qualified custodian's statement upon receipt to determine that it completely and accurately states all holdings in the account and all account activity over the relevant period. Any discrepancies identified by a Managed Account should be immediately reported to AQR and the qualified custodian.

In addition to the account statements provided by qualified custodians to AQR's Managed Accounts, AQR also provides account statements to Managed Accounts on a periodic basis, as agreed upon between the Managed Accounts and the Adviser. As such, we encourage Managed Accounts to compare the statements provided to them by AQR against those provided to them by their 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. AQR's 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 Managed Accounts.

## Item 16. Investment Discretion

AQR provides investment advisory services on a discretionary basis to Clients.

Prior to assuming 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 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.

From time to time and unless otherwise agreed to with a Client, AQR may receive notices regarding class action lawsuits involving securities that are or were held by Clients. For Sponsored Funds, AQR will participate in such class action lawsuits only where it believes, in its sole discretion, that such participation may result in a material benefit to the applicable Client, taking into considerations such factors as the anticipated costs and benefits. For Managed Accounts, AQR typically relies upon the Managed Account's custodian to direct participation in class action lawsuits. However, where there is a standing instruction in an investment management agreement to assess participation in class action lawsuits, AQR will do so only where it believes, in its sole discretion, that such participation may result in a material benefit to the applicable Managed Account, taking into consideration such factors as the anticipated costs and benefits.

## Item 17. Voting Client Securities

AQR's authority to vote proxies for its Clients is established by its investment advisory agreements or comparable documents. AQR 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. AQR will generally vote proxies according to the proxy voting guidelines developed by Institutional Shareholder Services Inc. Governance Services ("ISS") and adopted by AQR. 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 Chief Compliance Officer to follow if a material conflict of interest arises between AQR and/or its employees 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 AQR indicating such intention and provide written instructions directing AQR 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.

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

AQR has the responsibility to process proxies and maintain proxy records pursuant to SEC rules and regulations. Therefore, AQR will attempt to process every vote it receives for all domestic and foreign proxies. However, there may be situations in which AQR cannot vote proxies. Examples may include:

- If the cost of voting a proxy outweighs the benefit of voting, AQR may refrain from processing that vote.
- AQR may not be given enough time to process the vote. For example ISS through no fault of its own, may receive a meeting notice from the company too late or may be unable to obtain a timely translation of the agenda.
- If AQR has outstanding sell orders or intends to sell, the proxies for those meetings may not be voted in order to facilitate the sale of those securities. Although AQR may hold shares on a company's record date, should it sell them prior to the company's meeting date, AQR ultimately may decide not to vote those shares.

- AQR will generally refrain from voting proxies on foreign securities that are subject to share blocking restrictions

## Item 18. Financial Information

This Item is not applicable.