



## **AQR Arbitrage, LLC**

### **Part 2A of Form ADV: Firm Brochure**

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

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

Additional information about AQR Arbitrage 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.

PURSUANT TO AN EXEMPTION FROM THE COMMODITY FUTURES TRADING COMMISSION ("CFTC") IN CONNECTION WITH ACCOUNTS OF QUALIFIED ELIGIBLE PERSONS, THIS BROCHURE OR ACCOUNT DOCUMENT IS NOT REQUIRED TO BE, AND HAS NOT BEEN, FILED WITH THE CFTC. THE CFTC DOES NOT PASS UPON THE MERITS OF PARTICIPATING IN A TRADING PROGRAM OR UPON THE ADEQUACY OR ACCURACY OF COMMODITY TRADING ADVISOR DISCLOSURE. CONSEQUENTLY, THE CFTC HAS NOT REVIEWED OR APPROVED THIS TRADING PROGRAM OR THIS BROCHURE OR ACCOUNT DOCUMENT.

## Item 2 – Material Changes

There have been no material changes to this Brochure since its most recent update on March 30, 2023. The Adviser routinely makes updates throughout this Brochure to update its assets under management and to enhance and clarify the description of its business practices, risks, compliance policies and procedures, as well as to respond to evolving industry best practices.



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## Item 4 – Advisory Business

### Overview

AQR Arbitrage is an investment adviser with its principal place of business in Greenwich, CT. The Adviser, a Delaware limited liability company, commenced operations as an investment adviser in May 2001 and has been registered with the SEC since November 5, 2001. AQR Arbitrage is a joint venture between CNH Capital Management, LLC (“CNH CM”) and AQR Capital Management, LLC (“AQR”), a registered investment adviser (SEC Number 801-55543).<sup>1</sup> CNH CM is owned by Mark Mitchell, Ph.D. and Todd Pulvino, Ph.D. through an intermediate entity. Clifford S. Asness is the principal owner of AQR through intermediate entities.

### Advisory Services

AQR Arbitrage specializes in global merger arbitrage, global convertible arbitrage and other event driven strategies. AQR Arbitrage recommends investments which include, but are not limited to, individual securities (including global convertible debt and preferred securities), credit default swaps, index swaps, spot and forward currency contracts, futures, options and other derivative instruments. AQR Arbitrage provides investment management services through United States and Cayman Islands domiciled privately placed investment vehicles sponsored by AQR Arbitrage (“AQR Arbitrage Sponsored Funds”) and AQR<sup>2</sup> (“AQR Sponsored Funds”, collectively with AQR Arbitrage Sponsored Funds, “Sponsored Funds” or “Private Funds”).

AQR Arbitrage provides sub-advisory services to certain investment companies registered under the Investment Company Act of 1940, as amended (the “Company Act”)—commonly known as mutual funds (each a “Mutual Fund” and collectively, along with their wholly-owned and controlled foreign corporation subsidiaries, “Mutual Funds”)—sponsored by AQR (the “AQR Mutual Funds”). AQR is the adviser to the AQR Funds, which is an open-end registered investment company organized as a Delaware statutory trust on September 4, 2008 and is comprised of multiple active series (each a “Series Fund” which, together with their wholly-owned and controlled foreign corporation subsidiaries, comprise the AQR Mutual Funds). AQR Arbitrage serves as the sub-adviser to the AQR Diversified Arbitrage Fund, a series of the AQR Funds. Information concerning the AQR Diversified Arbitrage Fund, including a description of the services provided by the advisers and sub-advisers, is contained in the pertinent AQR Mutual Fund’s prospectus. A copy of the prospectus may be downloaded from <https://funds.aqr.com>.

AQR Arbitrage provides investment management services to European collective investment schemes pursuant to the Undertakings for Collective Investment in Transferable Securities—commonly known as UCITS funds – sponsored by AQR (“AQR UCITS”) and may also provide investment management services to institutional clients (“Managed Accounts”). Managed Accounts, Sponsored Funds, AQR UCITS and AQR Mutual Funds shall be collectively referred to herein as “Clients”.<sup>3</sup>

AQR Arbitrage provides advice to Clients based on specific investment objectives and strategies. Under certain circumstances, AQR Arbitrage tailors advisory services to the individual needs or requirements of a Client. For example, certain institutional investors 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 or

<sup>1</sup> AQR has primary responsibility for: (1) marketing investment vehicles sponsored or sub-advised by AQR Arbitrage to prospective investors; (2) providing investor services and reporting on behalf of investment vehicles sponsored or sub-advised by AQR Arbitrage; (3) provide trading, accounting and administration services for AQR Arbitrage and the investment vehicles sponsored or sub-advised by AQR Arbitrage; and (4) overseeing legal and compliance matters with respect to AQR Arbitrage and the investment vehicles sponsored or sub-advised by AQR Arbitrage.

<sup>2</sup> AQR Arbitrage receives a portion of the fees paid to AQR when acting as a sub-adviser.

<sup>3</sup> AQR Arbitrage or persons affiliated with AQR Arbitrage, from time to time and as permitted by applicable law, create seed or incubator funds (“Seed Funds”) in order to develop one or more performance track records in new investment products and/or strategies before offering them to outside investors. In certain circumstances, a Seed Fund may not be made available to outside investors. For the avoidance of doubt, the term Clients includes Seed Funds. In addition, AQR Arbitrage also advises certain other Clients whose assets include those of persons affiliated with AQR Arbitrage.

directing AQR to trade in a particular manner or within a certain timeframe. Likewise, other Clients may request certain customization to address specific tax or investment needs.

**Assets Under Management**

As of December 31, 2023, AQR Arbitrage had approximately \$2,434,400,000 in Client net assets under management ("AUM"), all of which were managed on a discretionary basis.

## Item 5 – Fees and Compensation

AQR Arbitrage is compensated through various fee structures, including asset-based fees and performance-based fees.<sup>4</sup> Asset-based fees are typically annual fixed fees based on AUM. A performance fee is based upon a percentage of the net profits of the account being managed. Typically, when calculating net profits, performance fees are based on absolute or benchmark-relative returns over an agreed upon time period, and are subject to high water marks or loss carryforwards. As more fully described below, AQR Arbitrage either bills or deducts fees in advance or in arrears, according to the terms of the pertinent investment management agreement or other governing documentation. Under certain circumstances, fees are negotiable.

### AQR Mutual Funds

Advisory fees for the AQR Mutual Funds range up to 1.00% of AUM (generally including, but not limited to, cash balances and cash invested in money market funds, closed end funds, and ETFs). Additional operating expenses apply. Pursuant to the sub-advisory agreements between AQR Arbitrage, AQR and AQR Funds, AQR will pay AQR Arbitrage an annual fee at the rate of 0.50% of the average daily net assets for the AQR Diversified Arbitrage Fund. Detailed information concerning the AQR Mutual Funds is contained in each Series Fund's prospectus, which can be downloaded from <https://funds.aqr.com>. Each Series Fund is distributed by ALPS Distributors, Inc.

### AQR UCITS

Advisory fees for the AQR UCITS range up to 1.60% of AUM (generally including, but not limited to, cash balances and cash invested in money market funds, closed end funds, and ETFs). Additional operating expenses apply. Certain AQR UCITS also include a performance fee of up to 20% of net profits. AQR and its affiliates reserve the right to enter into written agreements with investors ("Side Letters") in AQR UCITS sub-funds to waive or modify the standard fee terms of such sub-fund in respect to a particular investor. More information about the AQR UCITS can be found at <https://ucits.aqr.com/>.

### Sponsored Funds

The basic fee schedule for Sponsored Funds includes an annual fixed fee (or, in certain cases, a tiered fee schedule) of up to 2.00% of AUM (generally 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. Certain fee schedules also include a performance fee of up to 30% of net profits.<sup>5</sup> AQR Arbitrage receives a portion of the fees paid to AQR when acting as sub-advisor to AQR Sponsored Funds. Fees paid to AQR in respect of investments made in AQR Sponsored Funds are set forth in each respective Sponsored Fund's offering documents. Additional operating expenses apply. Investors in certain Sponsored Funds may be subject to initial "lock-up" periods or gates with respect to withdrawals/redemptions and incur withdrawal/redemption fees, in accordance with the provisions of the applicable fund documentation.

AQR Arbitrage and its affiliates enter into Side Letters with investors in Sponsored Funds ("Subscribers") to waive or modify the standard terms of such Sponsored Fund in respect of a particular Subscriber. Certain Subscribers are not charged any management fees, are not charged any performance fees, are charged fees in arrears rather than in advance, or have a differing fee structure because of their overall relationship with AQR Arbitrage or its affiliates or their investment approach. In particular, certain Subscribers in a Private Fund that are employees (including certain former employees), business associates and other "friends and family" of AQR Arbitrage, its affiliates or their personnel will typically not pay management fees or performance fees in connection with their investment in a Private Fund or may pay a reduced rate. Consequently, fees charged to certain Subscribers may deviate from the standard fees disclosed in a Sponsored Fund's offering documents.

For the AQR Arbitrage Sponsored Funds, AQR Arbitrage has the absolute discretion, subject to its fiduciary duty, to agree with Subscribers, particularly with respect to those Subscribers who are large or strategic investors, to waive or modify the application of any provision of a AQR Arbitrage Sponsored Fund agreement (including, but not limited to, those relating to liquidity, investment capacity, fees, and transparency). Moreover, with respect to such

<sup>4</sup> Throughout this Brochure, the term "performance fee" means performance fee or performance allocation, as applicable.

<sup>5</sup> For the avoidance of doubt, no Client is charged a combination of the highest advisory and performance fees set forth herein.

Subscribers, AQR Arbitrage remains subject to its fiduciary obligations, its duties under the Investment Advisers Act of 1940 (“Advisers Act”) and any terms negotiated through Side Letters. In some instances, Side Letters grant such Subscribers materially favorable terms relating to, among other things, liquidity, investment capacity, economic rights, fees, expenses, information and reporting rights, co-investment rights, certain rights or terms necessary in light of particular legal, regulatory or policy requirements of a particular investor, veto rights, transfer rights and transparency. In addition, AQR Arbitrage reserves the right to waive or rebate all or a portion of its management fees and/or performance fees with respect to a Subscriber. Prospective Subscribers and existing Subscribers should consider these possible conflicts of interest in making their decision to invest or remain invested in a AQR Arbitrage Sponsored Fund, as certain Side Letters can result in favoring some Subscribers over others and affect a Subscriber’s expectations as to future return and risk.

AQR Arbitrage has agreed to provide certain Subscribers enhanced 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.

### **Managed Accounts**

Generally, advisory fees for Managed Accounts are based upon a percentage of AUM and vary depending upon the nature of the portfolio to be managed and the strategy employed (e.g., merger arbitrage, multi-strategy). Fees are based upon the fee methodology agreed to with each Managed Account. In addition, AQR Arbitrage and the Managed Account may agree upon a performance fee<sup>6</sup>. In some instances, additional operating expenses apply.

### **Additional Information**

The investment terms offered to different Clients pursuing similar investment objectives in many cases differ, as do the investment terms offered to Subscribers in investment vehicles pursuing the same or similar investment objectives. For example, certain Managed Accounts have information sharing terms that are more extensive and/or timely than other Clients. As another example, certain Managed Accounts have different liquidity terms than other Subscribers pursuing the same or similar investment objectives in a Sponsored Fund. Similarly, certain Subscribers of Sponsored Funds managed as dedicated funds have information sharing terms that are more extensive and timely than other Subscribers in other funds. Additionally, certain such Subscribers are not subject to the same liquidity terms that apply to other funds. Prospective Subscribers and existing Subscribers should consider these possible conflicts of interest in making their decision to invest or remain invested in a Sponsored Fund, as certain Side Letters can result in favoring some Subscribers over others and affect a Subscriber’s expectations as to future return and risk.

Advisory fees are negotiable for Clients or investors in certain circumstances, and AQR Arbitrage from time to time enters into individual agreements with particular Clients or investors with respect to, among other things, the amount, the method of payment and timing of charging any management fee or performance fee. Generally, AQR Arbitrage deducts the management fee and/or performance fee from Private Funds by instructing such fund’s administrator and/or custodian. Managed Accounts are either invoiced for advisory fees or they self-remit payment for those fees. AQR Arbitrage invoices advisory fees for Series Funds.

As noted above, fee arrangements may provide for the payment of monthly or quarterly advisory fees in advance or arrears. If termination of an advisory contract by the Client occurs during a month or quarter in which a fee is charged in advance, generally, 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.

AQR Arbitrage’s fees are in addition to brokerage commissions, transaction fees, service provider fees, platform fees, distribution fees, as applicable, and other related costs and expenses which will be incurred by Clients (including any fees paid to AQR). 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 Arbitrage and its affiliates consider in selecting counterparties for the execution of transactions and determining the reasonableness of their compensation, which are applicable for all Clients, except for Clients that have entered into

<sup>6</sup> Information on the specific management and performance fees are available in the relevant fund offering documents.



directed brokerage agreements. Investment activity also involves other transaction fees and taxes payable by Clients, including but not limited to, sales charges, odd-lot differentials, transfer taxes, financial transaction taxes, wire transfer and electronic fund fees, overdraft fees and other fees and taxes on brokerage accounts and securities transactions. In addition, Clients incur certain charges imposed by custodians, prime brokers, counterparties, banks, governmental authorities, third-party investment consultants or investment advisers, investment platform providers, attorneys and other third parties, such as custodial fees, consulting fees, administrative fees, auditing fees, legal and compliance fees, insurance fees, and transfer agency fees. Certain Clients 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 from time to time incurs. Certain Clients incur additional expenses related to obtaining or maintaining systems, data and/or other information utilized for portfolio management, portfolio implementation, research, analysis, valuation, accounting, risk management, compliance and/or regulatory purposes, and other data costs directly related to the research, development, implementation and/or management of the Client's investment strategy or operation of a Client's account. Further details of these and other expenses are described in the Clients' offering documents, account agreements, and on-boarding documents.

Certain AQR employees are registered representatives of AQR Investments, LLC ("AQR Investments"), AQR and AQR Arbitrage's affiliated limited-purpose broker-dealer. As registered representatives, such AQR employees will engage in the marketing of shares of the Series Funds and or/interests of certain AQR Arbitrage Sponsored Funds, and will receive compensation for providing such services. In some instances, registered representatives may receive additional compensation in the form of commissions based on certain revenue generated from particular Clients. This creates an incentive for such registered representatives to recommend investments expected to generate more such compensation than others. While AQR believes compensation paid to AQR Investments and its employees is reasonable for the relevant activities, such compensation may not in each case be negotiated at arm's length and from time to time may be in excess of fees, commissions or other compensation that may be charged by an unaffiliated third party. Please see Item 10 – Other Financial Industry Activities and Affiliations below for a more detailed discussion of these AQR employees' role as registered representatives of AQR Investments.



## Item 6 – Performance-Based Fees and Side-by-Side Management

### Performance-Based Fees

As noted above, a performance fee represents an asset manager's compensation for managing a client account which is based upon a percentage of the net profits of the account being managed. Typically, when calculating net profits, performance fees are based on either absolute or benchmark-relative returns over an agreed upon time period, with performance fees subject to high water marks or loss carryforwards. In some instances, a performance fee represents all or a portion of AQR Arbitrage's standard fee arrangement. In other instances, AQR Arbitrage is compensated solely through an asset-based fee (*i.e.*, AQR Arbitrage is paid a percentage of the amount of assets in the account). AQR Arbitrage or its affiliates reserve the right to negotiate the rate of any applicable performance fees or asset-based fees on a case-by-case basis.

With respect to AQR Arbitrage's management of Client assets, performance fees give rise to certain conflicts of interest. Specifically, AQR Arbitrage entitlement to performance fees in managing one or more accounts creates an incentive to take risks in managing those accounts that in certain circumstances AQR Arbitrage would not otherwise take in the absence of such fee arrangements. Additionally, since performance fees reward for performance in accounts which are subject to such fees, AQR Arbitrage has an incentive to favor these accounts over those that have only asset-based fees with respect to trading opportunities, trade allocation, and allocation of new investment opportunities. Generally, AQR Arbitrage addresses these conflicts by utilizing an investment allocation policy designed to treat all Clients fairly and equitably over time. Please see below and Item 12 – Brokerage Practices for more information.

### Side-by-Side Management

Side-by-side management of various types of accounts raises the possibility of favorable or preferential treatment of a Client account or a group of accounts arising from differences in fee arrangements, including favoring Clients with higher fee schedules over those with lower fee schedules. AQR Arbitrage has procedures designed and implemented in furtherance of its efforts to treat all Clients fairly and equitably over time. By utilizing these procedures, AQR Arbitrage believes that Clients that are subject to side-by-side management alongside other accounts are receiving fair and equitable treatment over time.

AQR Arbitrage simultaneously manages multiple types of investment vehicles, including the AQR Mutual Funds, Sponsored Funds, AQR UCITS and Managed Accounts, in many instances according to the same or a similar investment strategy (*i.e.*, side-by-side management). The simultaneous management of these different investment vehicles gives rise to the types of conflicts described above, for example, the fees for the management of certain types of investment vehicles may be higher than for others or the liquidity terms may differ. Nevertheless, when managing the assets of such investment vehicles, AQR Arbitrage has a duty to treat all Clients fairly and equitably over time.

Although AQR Arbitrage has a duty to treat all Clients fairly and equitably over time, each Client will not necessarily be managed the same at all times. Specifically, there is no requirement that AQR Arbitrage use the same investment practices consistently or at the same time across all Clients. In general, investment decisions for each Client will be made independently from those of other Clients, and will be made based on the individual needs and objectives of each Client. In addition, different account guidelines, applicable laws and regulations, and/or differences within particular investment strategies leads, in some cases, to the use of different investment practices for accounts with a similar investment strategy or investing in the same securities. Portfolio managers know the size, timing and possible market impact of Client trades. A conflict of interest exists where portfolio managers could use this information to the advantage of certain accounts they manage and to the possible detriment of other accounts. AQR Arbitrage will not necessarily purchase or sell the same securities at the same time, in the same direction, or in the same proportionate amounts for all eligible accounts, particularly if different accounts have different amounts of investable cash available, different existing exposures, different liquidity requirements, different strategies, or different risk tolerances. In addition, some accounts purchase long positions in certain securities while other accounts simultaneously sell short or sell to reduce exposure to those same, similar or related securities. In certain circumstances, AQR Arbitrage will adjust its trading and/or allocation process in order to efficiently and effectively launch or implement new strategies, or to account for flows. As a result of all of these differences, although AQR Arbitrage manages numerous accounts with similar or identical investment objectives, or may

manage accounts with different objectives or strategies that trade in the same, similar or related securities, the portfolio decisions relating to these accounts, and the performance resulting from such decisions, may differ from account to account and, accordingly, Client to Client. Changes to, or modifications in, the investment strategies employed by the Adviser may be implemented incrementally, rather than simultaneously, across Clients pursuing similar or identical investment objectives. In certain circumstances, investment opportunities that are in limited supply and/or have limited return potential in light of administrative costs of pursuing such investments (e.g., IPOs, as defined below) are only allocated to Clients where the given opportunity is more closely aligned with the applicable strategy and/or trading approach.

Please see Item 12 – Brokerage Practices below for a more detailed discussion of AQR Arbitrage's trade allocation and aggregation policy and procedures.

## Item 7 – Types of Clients

AQR Arbitrage provides advisory and sub-advisory services to Sponsored Funds, Managed Accounts, AQR Mutual Funds and UCITS Funds whose participants may include, but are not limited to, investment companies, pooled investment vehicles, pension and profit sharing plans, charitable organizations, state or municipal government entities, other investment advisers, insurance companies, sovereign wealth funds and foreign official institutions, corporations or other business entities, as well as individuals and other investors.

AQR Arbitrage's investment minimums may vary according to investment strategy and vehicle (*i.e.*, Managed Account versus investment in a Sponsored Fund), and AQR Arbitrage maintains the ability to waive such minimums at its discretion, as applicable. Generally, AQR Arbitrage's Managed Account minimums range from \$50 million to \$100 million depending on the investment strategy. The standard 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 a Series Fund or in an AQR UCITS is described in each fund's prospectus.

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

### Methods of Analysis

As noted in Item 4 – Advisory Business, AQR Arbitrage provides investment management services specializing in arbitrage investments. AQR Arbitrage's core investment strategies include convertible arbitrage, merger arbitrage and corporate event strategies. . Each of the above strategies is summarized below.

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

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

### Investment Strategies

AQR Arbitrage manages the following investment strategies:

*Convertible Arbitrage.* AQR Arbitrage pursues a convertible arbitrage strategy by typically investing in convertible securities trading at discounts or shorting convertible securities selling at premiums 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. AQR Arbitrage may attempt to mitigate the various risks associated with investing in convertible securities through the implementation of certain hedges.

*Convertible Bonds.* The long only convertible strategy combines a systematic process with fundamental research, and sources investment opportunities by screening the universe for convertible securities trading below their fundamental values. The strategy may employ leverage and hedging at the portfolio level.

*Merger Arbitrage.* AQR Arbitrage pursues a merger arbitrage strategy for certain Clients by typically investing in shares of a "target" company in a proposed or potential merger, takeover or other reorganization between two companies. If the transaction is for the stock of the acquirer, AQR Arbitrage 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.

*Corporate Events.* AQR Arbitrage also employs other arbitrage and corporate event strategies when market opportunities arise. Examples of such investments can include special situations, IPOs (Initial Public Offerings), SEOs (Seasoned Equity Offerings), "price-pressure" trades, "dual-class" arbitrage and "closed-end fund" arbitrage among other strategies. Additionally, as a part of its corporate events strategy, the AQR Arbitrage will recommend investing in Special Purpose Acquisition Companies ("SPACs"). SPACs, sometimes referred to as "blank check" companies, are publicly traded companies or similar special purpose entities that pool funds to seek potential acquisition opportunities. Unless and until an acquisition is completed, a SPAC generally invests its assets (less a portion retained to cover expenses) in U.S. Government securities, money market fund securities and cash. The SPAC strategy seeks to capture a liquidity premium when these securities (initially a unit comprised of a share and a right or a warrant) are selling at a discount to their fundamental value.

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

***There can be no assurance that the objectives associated with any strategies described above will be met. At any time, AQR Arbitrage may add, remove, modify, overweight or underweight any of the strategies or factors it employs. 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 Arbitrage'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 Arbitrage is employing leverage. Moreover, arbitrage strategies often depend upon identifying favorable "spreads," which can also be identified, reduced, or eliminated by other market participants.

*Below Investment Grade Securities Risk.* Although bonds rated below investment grade (also known as "junk" securities) generally pay higher rates of interest than investment grade bonds, bonds rated below investment grade are high risk, speculative investments that may cause income and principal losses to Clients.

*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.

*Capacity Constraints.* A number of conflicts of interest may arise as a result of the Adviser's or portfolio manager's management of a number of accounts with similar investment strategies. Often, an investment opportunity may be suitable for more than one Client, but may not be available in sufficient quantities for all such Clients to participate fully. Similarly, there may be limited opportunity to sell an investment held by multiple Clients. In circumstances where the amount of total exposure to a strategy or investment type across Clients is, in the opinion of the Adviser, capacity constrained, the availability of the strategy or investment type for one or more Client's will be reduced in the Adviser's discretion. A Client may therefore have reduced exposure to a capacity constrained strategy or investment type, which could adversely affect such Client's return. The Adviser is not obligated to allocate capacity *pro rata* and may take its financial interest into account when allocating capacity among Clients. Among other things, capacity constraints in a particular strategy or investment type could cause an AQR Arbitrage Sponsored Fund to close to all or certain new investors.

*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 subject to regulatory oversight by the CFTC, the SEC, the Financial Industry Regulatory Authority, Inc. ("FINRA"), 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 typically 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 Arbitrage 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 Arbitrage 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 Client 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 Client. 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.

*Convertible Securities Risk.* The market value of a convertible security performs like that of a regular debt security; that is, if market interest rates rise, the value of a convertible security usually falls. In addition, convertible securities are subject to the risk that the issuer will not be able to pay interest or dividends when due, and their market value may change based on changes in the issuer's credit rating or the market's perception of the issuer's creditworthiness. Since it derives a portion of its value from the common stock into which it may be converted, a convertible security is also subject to the same types of market and issuer risks that apply to the underlying common stock.

*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.

*Cybersecurity Risk.* With the increased use of technologies such as the Internet to conduct business, the Adviser and its Clients are susceptible to operational, information security and related risks. In general, cyber incidents can result from deliberate attacks or unintentional events. Cyberattacks include, but are not limited to, gaining unauthorized access to digital systems (e.g., through "hacking" or malicious software coding) for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. Cyberattacks may also be carried out in a manner that does not require gaining unauthorized access, such as causing denial-of-service attacks on websites (i.e., efforts to make network services unavailable to intended users). Cyber incidents affecting the Adviser, sub-adviser(s) and other service providers (including, but not limited to, administrators, accountants, law firms, custodians, transfer agents and financial intermediaries) have the ability to cause disruptions and impact business operations, potentially resulting in financial losses, impediments to trading, the inability of Clients and/or investors to transact business, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs. Similar adverse consequences could result from cyber incidents affecting issuers of securities in which a Client invests, counterparties with which a Client engages in transactions, governmental and other regulatory authorities, exchange and other





financial market operators, banks, brokers, dealers, insurance companies and other financial institutions (including financial intermediaries and other service providers for Clients) and other parties. In addition, substantial costs may be incurred in order to prevent any cyber incidents in the future. While a Client's service providers may have established business continuity plans in the event of, and risk management systems to prevent, such cyber incidents, there are inherent limitations in such plans and systems including the possibility that certain risks have not been identified. Furthermore, the Adviser cannot control the cyber security plans and systems put in place by its service providers or any other third parties whose operations may affect a Client. As a result, Clients could be negatively impacted.

***Distressed Investments Risk.*** The Adviser may utilize investments in distressed investments, which are or have been 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 hyperinflation) and rapid fluctuations in inflation; (vii) controls or restrictions 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 accounting, auditing, financial reporting and record keeping standards which may result in the unavailability of material information about economies and issuers; (xi) less extensive regulatory oversight of securities markets, which, among other things, could lead to market manipulation; (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 and risk of loss.

***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.

***Environmental, Social and Governance ("ESG") Matters.*** When ESG is a factor AQR considers in making an investment, there is no guarantee that AQR will successfully implement and make investments in companies that create positive environmental, social or governance impact while enhancing long-term shareholder value and achieving financial returns. Considering ESG qualities when evaluating an investment both results in the selection or exclusion of certain investments based on AQR's view of certain ESG-related and other factors, and also carries the risk that AQR may underperform funds that do not take ESG-related factors into account

because the market may ultimately have a different view of a particular company's performance than that anticipated by AQR. In addition, others may differ in their views of what constitutes positive or negative ESG characteristics or may use different data and/or techniques to evaluate ESG characteristics. ESG data received from third parties may be incomplete, inaccurate or unavailable from time to time. As a result, there is a risk that Arbitrage or its affiliate AQR incorrectly assess a security or issuer, resulting in the incorrect inclusion or exclusion of a security in a Client's portfolio. In addition, securities or issuers in the relevant investment universe for which ESG-related data is not available will be included in a Client's portfolio. Finally, the regulatory landscape for sustainable and ESG related investing is developing and future rules and regulations may require AQR Arbitrage to modify or alter its investment process.

*ERISA Considerations.* Certain Client assets may, at various times, be considered "plan assets" for the purposes of Title I of the U.S. Employee Retirement Income Security Act of 1974 ("ERISA") or Section 4975 of the Internal Revenue Code of 1986, as amended. Accordingly, during such periods, the administration and operation of any such Client would, among other things, become subject to ERISA's fiduciary duty and prohibited transaction rules. In such a case, the investment strategies employed by the Adviser for the Client will be subject to investment limitations and restrictions that would not otherwise be applicable and may materially impact the Client's performance.

*Execution/Implementation Risk.* There can be no assurance that AQR Arbitrage's investment strategies will be successfully implemented. Failure to successfully implement AQR Arbitrage's investment strategies, due to errors related to the operation of quantitative models or otherwise, can lead to substantial losses or missed opportunities for gains for a Client. While AQR Arbitrage monitors client portfolios, there can be no assurance that risks associated with the implementation of investment strategies will be effectively managed.

*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 high-yield 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 certain futures contracts. All of the futures positions held by all Client accounts owned or controlled by AQR, AQR Arbitrage, 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 is highly speculative. Price movements of derivative contracts are influenced by, among other things, changing supply and demand relationships, governmental agricultural and trade programs and policies, and national and international political and economic events. 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 and compound losses 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 Arbitrage 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 Arbitrage 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 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 Arbitrage 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 Arbitrage 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 Arbitrage.



***Leverage.*** Certain of AQR Arbitrage's strategies utilize varying amounts of leverage, which involves the borrowing of funds from U.S. and non-U.S. 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. Money borrowed will be subject to interest, costs and other fees, which may or may not be recovered by earnings on the securities purchased. A fund or account also may be required to maintain minimum average balances in connection with a borrowing or to pay a commitment or other fee to maintain a line of credit. Either of these requirements would increase the cost of borrowing over the stated interest rate. Unless the appreciation and income, if any, on assets acquired with borrowed funds exceed the costs of borrowing, the use of leverage will diminish the investment performance of a fund or account compared with what it would have been without leverage.

***Liquidity Risk Generally.*** Liquidity—or the ability to quickly sell an asset at its fair market value—is important to the Adviser's investment strategies. 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 Arbitrage 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.

***Litigation Risk.*** Investing in companies involved in significant restructuring tends to involve increased litigation risk. This risk may be greater in the event a Client takes a large position or is otherwise prominently involved on a bankruptcy or creditors' committee. The expense of asserting claims (or defending against counterclaims) and recovering any amounts pursuant to settlements or judgments may be borne by the Client. Further, ownership of companies over certain threshold levels involves additional filing requirements and substantive regulation on such owners, and if the Client fails to comply with all of these requirements, the Client may be forced to disgorge profits, pay fines or otherwise bear losses or other costs from such failure to comply.

***Market Disruption Risk.*** Geopolitical and other events, including war, terrorism, economic uncertainty, trade disputes, public health crises and related geopolitical events have led, and in the future may lead, to increased market volatility, which may disrupt U.S. and world economies and markets and may have significant adverse direct or indirect effects on Clients and their investments. Such events include the recent pandemic spread of the novel coronavirus known as COVID-19, the duration and full effects of which are still uncertain, and any future pandemic, epidemic or outbreak of a contagious disease.

Clients could lose money due to the effects of a market disruption. A market disruption may disturb historical pricing relationships or trends that certain strategies and models are based on, resulting in losses to Clients. Similarly, the responses of governments, regulators and exchanges to a market disruption could adversely impact AQR's ability to implement certain strategies or manage the risk of outstanding positions. For example, regulators have permitted the delay in the public reporting of financial information, and numerous exchanges in the recent environment have implemented trading suspensions or restrictions on short selling. Although multiple asset classes may be affected by a market disruption, the duration and effects may not be the same for all types of assets.



*New Issues.* At times, AQR Arbitrage advises certain Clients to purchase equity securities issued through initial public offerings (“IPOs”). These include registered offerings under the Securities Act of 1933 (“new issues”). Pursuant to FINRA Rule 5130, “restricted persons” may not participate in gains or losses from new issues. As a result, investors who are not restricted persons may be allocated all, or a larger portion than their typical *pro rata* share, of the profits and/or losses related to new issue offerings. Under such circumstances, certain restricted persons will not receive gains from the new issue investment. Similarly, investors who are not restricted persons will receive more than their *pro rata* share of the losses from such an investment. When the Adviser subscribes for securities issued in an IPO on behalf of multiple Clients, the Adviser will allocate the securities among the Clients in a method that the Adviser deems fair and equitable to participating Clients over time. New issue offerings, on occasion, experience rapid increases and/or decreases in market value following such an offering.

*Off-Balance Sheet Risk.* In the normal course of business, AQR Arbitrage may, on behalf of Clients, 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 Arbitrage 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 rises above 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.

*Participation on Swap Execution Facilities.* SEF participation, direct or indirect, may nevertheless require a Client and/or AQR to consent to the SEF’s jurisdiction as a self-regulatory organization and to be subject to certain aspects of the SEF’s rulebook, which could subject it to a wide range of regulations and other obligations, together with associated costs. Like any other self-regulatory organization, SEFs regularly revise and interpret their rules, and such revisions and interpretations could adversely impact Clients.

*Private Investment in Public Entity (“PIPE”) Risk.* Clients may make private investments in public companies whose stocks are quoted on stock exchanges or which trade in the over-the-counter securities market, a type of investment commonly referred to as a “PIPE” transaction. PIPE transactions will generally result in the Client acquiring either restricted stock or an instrument convertible into restricted stock. As with investments in other types of restricted securities, such an investment may be illiquid. The Client’s ability to dispose of securities acquired in PIPE transactions may depend upon the registration of such securities for resale. Any number of factors may prevent or delay a proposed registration. Alternatively, it may be possible for securities acquired in a PIPE transaction to be resold in transactions exempt from registration in accordance with Rule 144 under the Securities Act of 1933, as amended, or otherwise under the federal securities laws. There is no guarantee, however, that an active trading market for the securities will exist at the time of disposition of the securities, and the lack of such a market could hurt the market value of the Client’s investments. As a result,

even if the Client is able to have securities acquired in a PIPE transaction registered or sell such securities through an exempt transaction, the Client may not be able to sell all the securities on short notice, and the sale of the securities could lower the market price of the securities.

*Portfolio Risk.* AQR Arbitrage Clients are also subject to investment management risk, which is the risk that AQR Arbitrage's investment process, techniques and analyses do not achieve their desired results and the securities or other financial instruments selected for a particular Client will result in returns that are inconsistent with that Client's investment objective. Clients advised by AQR Arbitrage are subject to limitations on aggregate and/or portfolio level ownership interest across certain companies, commodities and sectors, arising from statutory, regulatory, self-regulatory organization requirements or company ownership restrictions. Furthermore, legislative, regulatory or tax developments affect AQR Arbitrage's investment techniques and/or opportunities in connection with managing the Client's assets and can also adversely impact the ability of the Client to achieve its investment objectives.

*Portfolio Turnover.* Active and/or frequent trading of securities and financial instruments within a portfolio may produce increased transaction costs, including brokerage commissions, fees, transaction taxes, and other transaction costs. Likewise, such active and/or frequent trading may result in short-term capital gains tax treatment.

*Regulatory Limitations on Investment Adviser Activity.* Various laws, rules, regulations and corporate requirements impose regulatory filing and/or other compliance obligations based on meeting, exceeding or falling below certain ownership or voting thresholds in publicly traded securities or engaging in certain other securities transactions such as short sales. Compliance with such filing and/or other requirements may result in additional costs to one or more Clients, the Advisor and/or its affiliates. In certain circumstances, AQR Arbitrage, on behalf of one or more of its Clients, will limit certain or all purchases or sales (including short sales), sell existing investments, or otherwise restrict, forgo, or limit the exercise of rights when AQR Arbitrage, in its sole discretion, deems it appropriate in light of potential operational costs, regulatory or corporate restrictions on ownership, voting rights, or other consequences resulting from reaching or exceeding the applicable threshold. Additionally, governments may impose bans, restrictions or limitations on ownership and/or trading. Such limitations can be applied to securities, derivative instruments or other assets or instruments, including but not limited to, futures, options, or swaps. The imposition of the types of restrictions noted above will, in certain circumstances, adversely affect one or more Clients' performance.

*Repurchase Agreements.* Certain of AQR Arbitrage's strategies 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. Repurchase agreements essentially constitute a form of borrowing secured by collateral in the form of securities and will have the effect of leveraging a Client's assets. These agreements may be entered into on an overnight, specified term or open-ended basis. These instruments increase the risk of loss due to the use of leverage and potential counterparty nonperformance.

*Reverse Repurchase Agreements.* Certain of AQR Arbitrage's strategies 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. If the seller fails to repurchase the securities, a Client will suffer a loss to the extent proceeds from the sale of the underlying securities are less than the repurchase price. These instruments increase the risk of loss due to the use of leverage and potential counterparty nonperformance.

*Securities Lending.* Some of AQR Arbitrage's Clients lend their portfolio securities to certain types of eligible borrowers in an attempt to increase income and/or total return. Each loan is secured continuously by collateral in the form of cash, high quality money market instruments, or securities issued 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





Arbitrage 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. Securities lending involves the risk that the borrower may fail to return the securities in a timely manner or at all. As a result, a portfolio may lose money and there may be a delay in recovering the loaned securities, as well as regulatory consequences. The portfolio could also lose money if it does not recover the securities and/or the value of the collateral falls, including the value of investments made with cash collateral. Securities lending also may have certain adverse tax consequences.

**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 executed 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 Arbitrage's investment strategy and perception of market direction. In addition, global regulatory prohibitions on short sales may impair AQR Arbitrage's ability to implement its investment process. Such prohibitions may add additional constraints to a strategy, which may increase transaction costs as well as the time required to monitor compliance with the restrictions. There is the risk that the instruments borrowed by Clients in connection with short sales would need to be returned to the lenders on short notice. If such request for return of instruments occurs at a time when other short sellers of the same instrument are receiving similar requests, a "short squeeze" can occur, wherein Clients might be compelled, at the most disadvantageous time, to replace the borrowed instruments previously sold short with purchases on the open market possibly at prices significantly in excess of the proceeds received earlier in originally selling the instruments short. Purchasing instruments to close out the short position can itself cause the price of the instruments to rise further, thereby exacerbating any loss.

**SPACs Risk.** AQR Arbitrage may, on behalf of Clients, make use of stock, warrants, and other securities of special purpose acquisition companies ("SPACs") or similar special purpose entities that pool funds to seek potential acquisition opportunities. Unless and until an acquisition is completed, a SPAC generally invests its assets (less a portion retained to cover expenses) in U.S. Government securities, money market fund securities and cash; if an acquisition that meets the requirements for the SPAC is not completed within a pre-established period of time, the invested funds are returned to the entity's shareholders. Because SPACs and similar entities are in essence blank check companies without an operating history or ongoing business other than seeking acquisitions, the value of their securities is particularly dependent on the ability of the entity's management to identify and complete a profitable acquisition. Some SPACs may pursue acquisitions only within certain industries or regions, which may increase the volatility of their prices. In addition, these securities, which are typically traded in the over-the-counter market, can in certain circumstances be considered illiquid and/or be subject to restrictions on resale. In addition, the SPAC industry has recently received heightened regulatory scrutiny, in particular from the SEC, and it is possible that SPACs may become subject to different or heightened rules or requirements that could have a material adverse effect on the SPAC's ability to identify and complete a successful business combination and the results of its operations.

**Social, Political and Economic Uncertainty Risk.** The success of a Client's activities will be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation of the Client's investments), currency exchange controls, as well as the national and international political circumstances (including wars, terrorist acts, security operations or civil unrest). These factors will in many instances affect the level and volatility of securities prices and the liquidity of Client's investments. Volatility or illiquidity could impair Client's profitability or result in losses. These impacts can be exacerbated by failures of governments and societies to appropriately respond to emerging events or threats, whether by greater governmental and regulatory involvement in the economy, financial markets or social factors that impact the economy, or by insufficient governmental or regulatory action,

among other possibilities. For example, a Client may be exposed to the direct and indirect consequences of potential or actual political, economic, social and diplomatic changes. Clients could incur material losses even if AQR Arbitrage reacts quickly to difficult market conditions, and there can be no assurance that Clients will not suffer material losses and other adverse effects from broad and rapid changes in market conditions in the future.

***SOFR and Other Benchmark-Related Risks.*** The London Interbank Offered Rate (“LIBOR”), which was commonly used as a reference rate within various financial contracts, has been discontinued. Certain regulators around the world have identified new reference rates as preferred alternatives to LIBOR, including in the U.S. The Secured Overnight Financing Rate (“SOFR”) is a risk-free overnight floating rate that is currently published in multiple formats, including as an overnight rate, as a compounded average and as an index. Additionally, the CME Group has begun publishing a forward-looking Term SOFR rate that is calculated based on futures trading on the overnight SOFR rate. In addition to the SOFR rate variations, which have become the primary reference rates in the United States, in the U.S. other alternative floating rates have been developed, including the Bloomberg Short-Term Bank Yield Index (BSBY), Ameribor, the ICE Bank Yield Index and the IHS Markit published USD Credit Inclusive Term Rate (CRITR). Various market participants have adopted these floating rates to various degrees and the market practice may shift over time. Depending on various factors, one or more such reference rates may become dominant, while other reference rates may fall out of favor. If a Client invests in instruments that utilize a reference rate that falls out of favor, the value of such instrument may be affected. In addition, the foregoing may result in periods of illiquidity in the markets in which the Client trades, which may have adverse effects on the Client’s ability to trade certain instruments.

***Use of Swaps and Other Derivatives.*** AQR Arbitrage 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 Arbitrage 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.

***Computer System Risks.*** Throughout its investment management process and business operations, AQR Arbitrage relies on a variety of computer hardware and software systems and platforms, some of which may be proprietary while others may be licensed from third parties (such systems and platforms, collectively, “Computer Systems”). Incorrect data, including stale or missing data, hardware or software malfunctions, programming inaccuracies, and similar errors may impair the performance of Computer Systems, which may negatively affect investment performance.

***Crowding/Convergence.*** There is significant competition among quantitatively-focused managers. To the extent that AQR Arbitrage’s models come to resemble those employed by other managers, the risk that a market disruption that broadly affects the models of quantitatively-focused managers (including competitors of AQR Arbitrage) may 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.

***Involuntary Disclosure.*** As described under “Model and Data Risk” and “Crowding/Convergence,” AQR Arbitrage’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, defined below, are largely protected by AQR Arbitrage 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) and theft of research, technical specifications,

and other data could lead to opportunities for competitors to reverse-engineer strategies, and thereby impair the relative or absolute performance of a Client's portfolio.

*Model and Data Risk.* Given the complexity of AQR Arbitrage's investments and strategies, the Adviser relies heavily on quantitative models (both proprietary models developed by the Adviser, and those supplied by third parties), information and traditional and non-traditional data supplied or made available 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), to provide risk management insights, and to assist in hedging the Clients' investments, if applicable. When Models and Data prove to be incorrect or incomplete, including because data is stale, missing, or unavailable, any decisions made in reliance thereon expose Clients to potential risks. For example, by relying on Models and Data, the Adviser may be induced to buy certain investments at prices that are too high, to sell certain other investments at prices that are too low, or to miss favorable opportunities altogether. Similarly, any hedging based on faulty Models and Data may prove to be unsuccessful.

Some of the models used by AQR Arbitrage 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), 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 or otherwise, the success of relying on such models may depend on the accuracy and reliability of the historical data.

All models rely on correct data inputs. If incorrect data is entered into even a well-founded model, the resulting valuations will be incorrect. However, even if data is input correctly, "model prices" will often differ substantially from market prices, especially for securities with complex characteristics, such as derivative instruments.

AQR Arbitrage may make use of non-traditional data, also known as "alternative data" (e.g., data related to consumer transactions or other behavior, social media sentiment, and internet search and traffic data). These data sets are expected to change over time, and the use of alternative data is expected to evolve over time as well. The decision to incorporate certain alternative data sets within a particular model is subjective and in the sole discretion of AQR Arbitrage. There can be no assurance that using alternative data will result in positive performance. Alternative data is often less structured than traditional data sets and usually has less history, making it more complicated (and riskier) to incorporate into quantitative models. Alternative data providers often have less robust information technology infrastructure, which can result in data sets being suspended, delayed, or otherwise unavailable. In addition, as regulators have increased scrutiny of the use of alternative data in making investment decisions, the changing regulatory landscape could result in legal, regulatory, financial and/or reputational risk.

*Obsolescence Risk.* AQR Arbitrage'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. AQR Arbitrage's testing of its Models and Data are directed in part at identifying these risks, but there is no guarantee that these risks will be effectively managed. If and to the extent that the models do not reflect certain factors, and AQR Arbitrage does not successfully address such omission through its testing and evaluation and modify the models accordingly, major losses may result. AQR Arbitrage will continue to test, evaluate, and add new models, as a result of which the existing models may be modified from time to time. Any modification of the models or strategies will not be subject to any requirement that Clients receive notice of the change or that they consent to it. There can be no assurance as to the effects (positive or negative) of any modification of the models or strategies on a Client's portfolio.

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



may cause a Client to suffer financial loss, the disruption of the Adviser's business, liability of Clients to third parties, regulatory intervention, or reputational damage to AQR Arbitrage. AQR Arbitrage relies heavily on its or AQR's portfolio management, trading, 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.

*Risk Associated with Use of AI.* In line with advances in computing technology and data analytics, there has been an increasing trend towards utilizing machine learning, natural language processing, artificial generative intelligence, artificial neural networks, artificial narrow intelligence, or similar tools, models and systems generally referred to as "artificial intelligence" (collectively, "AI Tools") as part of portfolio management, trading, portfolio risk management and other applications in the investment management processes used by various market participants. AQR Arbitrage may use AI Tools in the future in connection with its investment management activities. In addition, certain vendors and counterparties, including third-party research providers, may use AI Tools. Clients should be aware of some of the risks related to the use of AI Tools. Many AI Tools are relatively recent developments and may be subject to one or more undetected errors, defects or security vulnerabilities. Some errors may be discovered only after an AI Tool has been used by end customers or after substantial operations in the marketplace. Any exploitable errors or security vulnerabilities discovered after such AI Tools are in widespread operation could result in substantial loss of revenues or assets, or material liabilities or sanctions.

*Risk of Programming and Modeling Errors.* AQR Arbitrage's research and modeling process is extremely complex and involves financial, economic, econometric and statistical theories, simulations, research and modeling; the results of that process must then be translated into computer code. Although AQR Arbitrage 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. Programming, model or coding errors are often difficult to detect and could go undetected for long periods of time, or never be detected, compounding over time. If AQR Arbitrage determines to fix a programming, model or coding error, it may also result in unintended consequences, including creating other errors. In addition, third party programming, model or coding errors are outside the control of AQR Arbitrage. 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 Arbitrage's policies. AQR Arbitrage also will use other numerical estimation methods that can give sub-optimal or incorrect outputs even when coded properly. Generally, AQR Arbitrage will not notify Clients or investors of non-compensable errors or incidents, including coding or data issues. AQR Arbitrage's testing of its Models and Data are directed in part at identifying these risks, but there is no guarantee that these risks will be effectively managed.

*Trading Decisions Based on Quantitative and Other Analysis.* AQR Arbitrage'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' investment models and 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.

*Trading Judgment.* The success of the proprietary valuation techniques and investment and trading strategies employed by AQR Arbitrage is subject to the judgment and skills of the portfolio managers, research teams and trading teams. There can be no assurance that the investment decisions or actions of the portfolio managers, researchers or trading personnel will be correct. Incorrect decisions or poor judgment may result in substantial losses to a Client.



The above summary does not purport to be a complete discussion of all the risks associated with a Client's specific mandate. A Client's offering memorandum or prospectus and supplemental disclosure document contains additional information with respect to the risks to which the Client will be subject.

## Item 9 – Disciplinary Information

AQR Arbitrage has nothing to disclose under this Item. However, AQR Arbitrage's advisory affiliate, AQR, discloses the following historical information for Item 9 – Disciplinary Information within its Form ADV.

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 \$2,300 and \$30,000 for the late notifications with respect to these two issuers. On May 25, 2015, the decision became legally binding and AQR paid 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 an administrative fine of EUR 500,000 for the late notifications with respect to these two issuers, which AQR paid following the issuance of an invoice by the AFM.

## Item 10 – Other Financial Industry Activities and Affiliations

### Affiliated Broker-Dealer

In connection with the marketing of shares of the Series Funds and interests in certain AQR Arbitrage Sponsored Funds, certain AQR personnel are registered representatives of AQR Investments, an affiliated SEC-registered broker-dealer, member of FINRA and the Securities Investor Protection Corporation. Please see Item 5 – Fees and Compensation above for a discussion of potential conflicts of interest with respect to such employees. AQR Investments does not: (1) engage in underwriting or market making activities; (2) handle or custody customer funds or securities; (3) engage in execution, clearance or settlement of transactions; or (4) hold investments.

### CFTC Registration Status

AQR Arbitrage 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 Arbitrage is a Delaware limited liability company whose members are AQR and CNH CM.

AQR is a SEC-registered investment adviser (SEC Number 801-55543), is registered with the CFTC as a commodity pool operator and a commodity trading adviser, and a member of NFA. AQR specializes in quantitative investment analysis which relies on proprietary models, utilizing a set of valuation, momentum, and other factors, to generate views on positions and applying them in a disciplined and systematic process. AQR sponsors and manages a number of private investment funds, registered investment companies, separate institutional accounts and Seed Funds in which AQR Arbitrage principals may be invested, which may make certain of the same investments as Client accounts managed by AQR Arbitrage. AQR Arbitrage serves as sub-adviser to certain AQR clients. AQR employs AQR Arbitrage to perform research and investment management support services. AQR, where appropriate, may invest the assets of certain of its clients in funds managed by AQR Arbitrage. AQR Arbitrage utilizes the infrastructure of AQR for non-portfolio management functions. For more information about AQR and its affiliates, please see AQR's Form ADV.

CNH CM is not a registered investment adviser and does not have investment management agreements or discretionary authority over AQR Arbitrage or AQR clients.

AQR Arbitrage or affiliated entities may also from time-to-time act as general partner or managing member to certain Sponsored Funds formed as limited partnerships or limited liability companies. AQR Arbitrage or affiliated entities may act as general partner to both the master fund (the "Master Fund") and the feeder fund (the "Feeder Fund") in a Sponsored Fund that is set up in a master-feeder structure. The following AQR Arbitrage -affiliated entities serve as general partner or managing member to one or more AQR Arbitrage Sponsored Funds:

- CNH Principal Partners I, LLC
- CNH Principal Partners II, LLC

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

### **Code of Ethics**

AQR Arbitrage's officers, principals, and employees (collectively "Covered Persons") must abide by a Business Conduct Manual and Code of Ethics (the "Business Conduct Manual"), which includes a Personal Trading Policy (which is also applicable to members of their household).

Covered Persons may hold and transact in securities only if they comply with the Personal Trading Policy. AQR Arbitrage has implemented the Personal Trading Policy in order to reduce conflicts of interest between trading for Clients and the personal trading activities of Covered Persons. Covered Persons are permitted to invest in Series Funds, sub-advised Mutual Funds, if any, and Sponsored Funds, and through their personal trading accounts, subject to certain restrictions. At times, Covered Persons invest in the same or related securities as those that AQR Arbitrage or an affiliate invests in for Clients, including doing so before, or at about the same time as a Client transaction is effected. The Personal Trading Policy also prohibits certain personal transactions, imposes restrictions on personal trading, requires pre-clearance of certain personal trades, and requires Covered Persons to make certain reports regarding their personal trading and private investments.

AQR Arbitrage is firmly committed to making its Covered Persons aware of the requirements within the Business Conduct Manual. All Covered Persons are provided with the Business Conduct Manual at the time of hire and must certify that they have received a copy of the Business Conduct Manual and have read and understand its provisions. Covered Persons are also required to certify at least annually that they have complied with the terms of the Business Conduct Manual. Additionally, employees of AQR Arbitrage are subject to periodic compliance training that addresses the requirements of the Business Conduct Manual.

Clients or prospective Clients may obtain a copy of the Business Conduct Manual upon request.

### **Client Transactions in Securities Where Adviser has a Material Financial Interest**

AQR Arbitrage, where appropriate, may recommend that one or more Sponsored Funds or Series Funds invest in other Sponsored Funds or Series Funds, respectively, or funds managed or sub-advised by AQR. These practices create a conflict of interest because AQR Arbitrage or persons affiliated with AQR Arbitrage have an incentive to recommend its products to Clients based on its own financial interests or those of its affiliated persons, rather than solely the interests of a Client.

### **Investing in Securities Recommended to Clients**

When AQR Arbitrage determines that it would be appropriate for one or more Sponsored Funds, Series Funds, or other Clients, including Seed Funds, to participate in an investment opportunity, AQR Arbitrage will seek to execute orders for all the participating accounts, including Seed Funds, on an equitable basis.

In certain circumstances, Clients take an opposite investment position (e.g., a long position versus a short position) in the same security held by other Clients (including Seed Funds). Subject to applicable laws and/or Client restrictions, and in certain circumstances, AQR Arbitrage instructs on the purchase, sale or holding of a certain security or securities for a Client (including Seed Funds) while also instructing other Client (including Seed Funds) to enter into a different or opposite investment decision regarding the same security or securities. Hence, AQR Arbitrage sometimes directs the purchase or sale of the same securities for more than one advisory Client (including Seed Funds) 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 are certain disadvantages when one or more Clients simultaneously seeks to buy or sell commonly held securities and other investment positions.

AQR Arbitrage will seek to allocate investment opportunities and trades fairly. "Fair" treatment does not mean identical treatment of all Clients. Rather, it means that AQR Arbitrage does not discriminate on an impermissible basis against one Client or group of Clients. When AQR Arbitrage transacts in securities or instruments for more than one Client, the investment opportunities and trades will be allocated in a manner consistent with AQR Arbitrage's policies and procedures. Please refer to Item 12 – Brokerage Practices for a description of AQR Arbitrage's trade aggregation and allocation procedures.



Certain AQR Arbitrage personnel maintain personal private investment holdings, which include private companies and/or private funds. Certain of these investments are maintained with third-party investment managers who sponsor investment vehicles that compete with AQR Arbitrage or that AQR Arbitrage or certain AQR Arbitrage affiliates may recommend to its clients. Furthermore, certain of these personal investments have terms that are more favorable than those routinely offered by the unaffiliated investment manager (e.g., reduced fees). These personal investments may give rise to potential or actual conflicts of interest between AQR Arbitrage's Clients on the one hand, and AQR Arbitrage and its affiliates, on the other hand. Accordingly, AQR Arbitrage's personal securities investment and reporting policies, which require the pre-approval from the Chief Compliance Officer, or his designee, on any personal private fund or private company investment, seek to address any potential or actual conflicts of interest relating to personal private investments.

### **Investing in Securities Issued by Clients, Counterparties, and Related Parties**

To the extent permitted by law and account guidelines, and in certain circumstances, AQR Arbitrage recommends the purchase, sale or holding of securities issued by companies with which AQR Arbitrage has business relationships, including but not limited to companies which are Clients, prospective Clients or which are affiliated with Clients, service providers, trading counterparties, lenders or investors. These transactions are subject to the requirements and limitations of the Code and related policies, as well as the requirements of the Advisers Act, the Company Act and/or other applicable laws.

### **Conflict of Interest Created by Contemporaneous Trading**

In certain circumstances, AQR Arbitrage, on behalf of a Client, will take a position that is different from, and potentially adverse to, a position taken by another Client, invest in a different security of an issuer's capital structure in which another Client is invested, invest in the same security but on different terms than another Client, obtain exposure to an investment using different types of securities or instruments than another Client, engage in short selling securities that another Client holds, vote securities in a different manner than another Client, and/or acquire or dispose of its interests at different times than another Client. This could have a material adverse effect on, or in some instances could benefit, one or more of such Clients, including Clients that are AQR Arbitrage affiliates, in which AQR Arbitrage has an interest, or which pay AQR Arbitrage higher fees or a performance fee. These transactions or investments by one or more Clients could dilute or otherwise disadvantage the values, prices, or investment strategies of such Clients. When AQR Arbitrage, on behalf of a Client, manages or implements a portfolio decision ahead of, or contemporaneously with, portfolio decisions of another Client, market impact, liquidity constraints, or other factors could result in such Client receiving less favorable pricing or trading results, paying higher transaction costs, or being otherwise disadvantaged. In addition, in connection with the foregoing, AQR Arbitrage, on behalf of a Client, is permitted to pursue or enforce rights or actions, or refrain from pursuing or enforcing rights or actions, with respect to a particular issuer in which another Client has invested, even though such actions or inaction could materially adversely affect such other Client.

Certain employees have invested their own monies in Sponsored Funds and/or Series Funds. These funds hold, purchase, sell or short the same investments in which other Clients have interests. From time to time, AQR Arbitrage or a related person buys or sells securities for Clients before, or at about the same time that AQR Arbitrage or a related person buys or sells the same securities for its own accounts. In order to minimize the conflicts stemming from situations where this type of contemporaneous trading might result in an economic benefit for AQR Arbitrage or its affiliated persons to the detriment of a Client, AQR Arbitrage has adopted the trade aggregation and allocation policies and procedures discussed in Item 12 – Brokerage Practices below and the Business Conduct Manual discussed above.

In addition, persons affiliated with AQR Arbitrage provide initial funding or otherwise invest in vehicles managed by AQR Arbitrage and/or AQR. When persons affiliated with AQR Arbitrage provide 'seed capital' or other capital for a fund, they do so with the intention of redeeming all or part of their interests at a particular future point in time or when they or AQR Arbitrage deem that sufficient additional capital has been invested in that fund.

### **Insider Trading/Material Nonpublic Information ("MNPI")**

All AQR Arbitrage employees are subject to the Business Conduct Manual's Policy to Prevent Insider Trading. This section of the Business Conduct Manual includes policies and procedures prohibiting the misuse of MNPI and is designed to prevent insider trading by an officer or employee of the Adviser. Additionally, employees are prohibited

from transacting in the securities of the relevant issuer while in possession of MNPI that has been obtained in breach of a duty of trust or confidence, and disclosing such MNPI to any person, including, but not limited to, family members.

In accordance with these policies, AQR Arbitrage and its affiliates maintain a “restricted list” that identifies any securities that cannot be purchased by AQR employees, including members of their household. The issuers named on this restricted list are coded as prohibited in AQR Arbitrage’s and 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 or his designee. In certain circumstances, a Client will be restricted from transacting in a security or instrument because of MNPI received in connection with an investment opportunity that is offered to other Clients. In other circumstances, a Client will not participate in an investment opportunity to avoid AQR or AQR Arbitrage from receiving MNPI that would restrict AQR or AQR Arbitrage from transacting in a security or instrument for another Client. These restrictions may adversely impact the investment performance of Client accounts.

## Item 12 – Brokerage Practices

Clients often grant AQR Arbitrage or AQR responsibility for selecting brokers to execute portfolio transactions on behalf of Clients as well as negotiating any commissions or spreads paid on such transactions, except with respect to Clients that have entered into directed brokerage agreements. Securities transactions normally will be executed through brokers selected by AQR Arbitrage in its sole discretion without the consent of Clients. Before establishing a relationship with any counterparty, the Adviser's Global Trading group ("GT") will evaluate the counterparty based on selection factors including, but not limited to, those listed below. In addition, the AQR's Counterparty Risk Group will review each proposed counterparty relationship. Only after due diligence is complete will the Counterparty Risk Group approve a counterparty. The Counterparty Risk Group maintains a list of all counterparties approved to execute Client orders and will continue to review those counterparties on an on-going basis. The Best Execution Committee evaluates the selection factors listed below on an ongoing basis.

With regard to inducement rules under the recast EU Markets in Financial Instruments Directive ("MIFID II"), where applicable, AQR Arbitrage takes a global unbundling approach and pays for external research and data out of its own or an affiliate's assets.

### Brokerage Relationships

AQR Arbitrage's relationships with counterparties, particularly those affiliated with large financial services organizations, are complex. AQR Arbitrage uses various counterparties to execute orders, provide financing to investment vehicles managed by AQR Arbitrage on behalf of Clients, and also has other relationships with certain such firms including, but not limited to, the following examples:

- AQR Arbitrage invests certain Client assets in securities issued by counterparties or their affiliates;
- AQR Arbitrage provides investment management services to certain counterparties or their affiliates;
- Certain counterparties provide both internally-generated and third-party research to AQR Arbitrage;
- Certain counterparties refer prospective clients to AQR Arbitrage or invest themselves in AQR Arbitrage's products.

Notwithstanding such relationships or business dealings with these counterparties, AQR Arbitrage has a 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 Arbitrage or its affiliates the authority to select the counterparty to be used for the purchase or sale of securities and investments. Consequently, AQR Arbitrage has a duty to seek best execution of transactions for Clients. "Best execution" is generally understood to mean the most favorable cost or net proceeds reasonably obtainable under the circumstances.

In seeking best execution, the selection of executing brokers and their respective capabilities on behalf of Clients shall be evaluated by GT and the Best Execution Committee. Each broker evaluation shall be conducted by GT and consider factors including, but not limited to, those described below. The determining factor is not necessarily the lowest possible commission cost, but whether the transaction represents the best qualitative execution overall. The Best Execution Committee has determined that the following factors, to the extent applicable, should be considered in determining whether a broker provides best execution: competitiveness of commission rates or spreads; execution capabilities; clearance and settlement capabilities; access to various market centers; expertise in executing trades for a particular security type; reputation and business practices; overall quality of broker services, including responsiveness and technology support; ability or willingness to maintain and commit adequate capital; and the size and volume of the broker's order flow.





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

**Additional Considerations.** When selecting brokers to execute Client trades, employees may not consider factors that are based on a personal benefit or conflicts of interest (e.g., directing execution as a means of compensating others for personal favors). In addition, employees are required to disclose to the Compliance Department any related person of the employee who is employed by or affiliated with a bank, broker-dealer, futures broker or commodities broker, which may present a potential conflict of interest.

The AQR Mutual Funds will not compensate a broker or dealer for any promotion or sale of shares of the AQR Mutual Funds by direction to the broker or dealer of the AQR Mutual Funds' portfolio securities transactions, or any remuneration (including, but not limited to, any commission, mark-up, mark down, or other fee) received or to be received from the portfolio transactions effected through any other broker or dealer (see Rule 12b-1(h) under the Company Act). However, the AQR Mutual Funds are permitted to use a broker or dealer that promotes or sells the AQR Mutual Funds' shares, provided the business arrangement is in compliance with the conditions required by applicable law and AQR Mutual Funds' policies and procedures.

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

The Best Execution Committee is responsible for the design, implementation and oversight of the best execution governance framework, which includes controls, processes and systems designed to provide reasonable assurance that best execution is achieved for all Clients. The Best Execution Committee reviews commission rates by broker, country, and investment type per Client as part of its overall responsibility. Counterparty effectiveness is evaluated on cost, connectivity, operational performance and other related factors. Moreover, the Counterparty Risk Group reviews credit quality and operational viability of the Adviser's clearing and execution counterparties.

**Client Restrictions.** Certain Client imposed restrictions that constrain AQR Arbitrage and/or AQR's operational efficiency and/or broker selection will impact AQR Arbitrage and/or AQR's ability to achieve best execution in certain circumstances.

**Directed Brokerage.** AQR Arbitrage generally does not recommend, request, or require that Clients direct AQR Arbitrage to execute transactions through a specified counterparty. However, from time to time, a Client will direct AQR Arbitrage 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 Arbitrage'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 Arbitrage or receive less favorable execution on some transactions, or both; they may not be able to participate in the allocation of initial public offerings; AQR Arbitrage may wait to 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. Certain prime brokers also provide AQR Arbitrage with research, reporting, and analysis tools as part of their services.

**Step-Outs.** In certain circumstances, AQR Arbitrage uses "step-out trades" when AQR Arbitrage determines that the step-out trades facilitate better execution for certain Client trades or AQR Arbitrage is directed to use such structure. 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 Arbitrage can trade a larger block of shares more efficiently. Unless directed otherwise by the Client, AQR Arbitrage may use step-out trades for any Client.

**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. AQR Arbitrage does not currently use soft dollars in connection with any of the Clients we advise. To the extent AQR does use soft dollars in the future, we expect that such use will fall within the safe harbor afforded by Section 28(e) of the Securities Exchange Act of 1934, as amended.

**Brokerage for Client Referrals.** AQR Arbitrage does not select counterparties based on or related to Client referrals or in connection with past or future placement of investors into AQR Mutual Funds, UCITS, or Sponsored Funds. Certain broker-dealers host conferences and events for prospective investors. On occasion, representatives of AQR Arbitrage speak at these "capital introduction" events and meet with prospective investors or their representatives. AQR Arbitrage accepts subscriptions from certain investors who also provide services to Clients, including brokers and their affiliates. Relationships such as these could be viewed as creating a conflict of interest that potentially could affect AQR Arbitrage's ability to seek best execution. While AQR Arbitrage's relationship with broker-dealers may influence it in deciding whether to use such brokers in connection with trading, financing and other activities of Clients, AQR Arbitrage will not commit with any broker to allocate a particular amount of brokerage to that broker. In addition, AQR Arbitrage will not select any broker for trading purposes based upon any distribution related activity of that broker or one of its affiliates on a Client's behalf. AQR Arbitrage conducts best execution reviews on a regular basis in an effort to mitigate potential conflicts of interest with brokerage relationships, and to provide reasonable assurance that AQR Arbitrage obtains best execution for all Clients.

**Trade Aggregation and Allocation.** As a fiduciary, AQR and its personnel must exercise due care to reasonably ensure that it places the interests of its Clients first and to allocate investment opportunities fairly and equitably and in accordance with regulatory requirements. The timing, size, and frequency of trading in a Client's portfolio will be determined by a number of factors, including, but not limited to: (1) investment objectives and guidelines; (2) regulatory restrictions; (3) risk tolerance including exposure control; (4) liquidity needs; (5) redemptions and subscriptions; (6) distance from target exposure; (7) composite dispersion; and (8) market liquidity conditions. If a Client portfolio is scheduled to trade on the same day as a separate, but similar, Client portfolio, trading will be aggregated in certain circumstances.

As discussed in Item 6 – Performance-Based Fees and Side-By-Side Management 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. AQR Arbitrage has implemented specific controls built on two general principles: (1) fair allocation of a trade opportunity, and (2) fair allocation of price. Depending upon the particular instrument, the trade opportunities in which a Client will participate are determined by AQR Arbitrage's quantitative investment models, as they prescribe the specific appetites based on pre-determined parameters and measures for individual instruments based on the particular Client's

investment objectives and other considerations. In certain circumstances, certain investment opportunities (e.g., new issuances) may be allocated to some eligible Clients and not others, depending on existing holdings, investment strategies or other pre-determined criteria. Upon completion of this process, a set of transactions are identified that are then either traded in aggregate with other accounts with similar objectives or traded individually. When evaluating trade opportunities, AQR Arbitrage's considerations include the expected liquidity available in the market relative to the size of the overall trades AQR Arbitrage will effect on behalf of Clients.

If AQR Arbitrage has determined to invest at the same time for more than one account, AQR Arbitrage will under certain circumstances, but is not obligated to, aggregate or "bunch" orders to obtain best execution, negotiate more favorable commission rates, or allocate equitably among Clients differences in prices and commissions or other transaction costs than 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 Clients *pro rata*, based on the original purchase and sale orders placed for each Client on any given day, and transaction costs, with limited exceptions, will be shared *pro rata* based on each Client's participation in the transaction. To the extent that AQR Arbitrage determines to aggregate Client orders for the purchase or sale of investments, AQR Arbitrage shall do so in a fair and equitable manner and consistent with its duty to seek best execution. AQR Arbitrage shall not receive any additional compensation or remuneration as a result of the aggregation. In the event that AQR Arbitrage determines not to aggregate Client orders, Clients will under certain circumstances be subject to different prices and commissions or other transaction costs compared to what they would have obtained had such orders been placed on an aggregate basis.

AQR Arbitrage typically targets its daily trading volume for a given instrument in the applicable investable universe based on estimates of anticipated market conditions. If an aggregate order on behalf of more than one Client cannot be fully executed under prevailing market conditions, AQR Arbitrage will allocate the instruments traded among the different Clients on the basis in which it considers equitable. In these circumstances, each Client would generally pay (or receive), in connection with the purchase (or sale) of instruments by more than one Client, the average price per unit acquired (or sold), which may be higher (or 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 Arbitrage determines that a *pro rata* allocation for partially executed aggregate orders (i.e., a "partial fill") is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include, but are not limited to: (1) when only a small percentage of the order is executed, interests may be allocated to the Client with the smallest order or the smallest position or to a Client that is out of line with respect to target weightings relative to other Client portfolios, with similar mandates, including if the imbalance is due to a cash subscription; (2) an allocation may be given to a Client when the Client has limitations in its investment guidelines which prohibit it from purchasing other instruments that are expected to produce similar investment results and can be purchased by other Clients; (3) if a Client reaches an investment guideline limit and cannot participate in an allocation, interests may be reallocated to other Clients (this may be due to unforeseen changes in a Client's assets after an order is placed); (4) with respect to sale allocations, allocations may be given to Clients low in cash, including to satisfy a cash redemption; (5) in cases when a *pro rata* allocation of a potential execution would result in a *de minimis* allocation in one or more Clients, AQR Arbitrage may exclude the Client(s) from the allocation and the transactions may be executed on a *pro rata* basis among the remaining Clients; (6) in cases when there is a minimum tradeable lot size, the transaction may be allocated first based on the minimum lot size for the security type and then the remainder shall be allocated *pro rata* per applicable portfolio guidelines (unless such *pro rata* allocation would not meet the security's minimum lot size, where applicable, in which case that portfolio may be excluded from the allocation; and (7) in cases where a small proportion of an order is executed in all Clients, interests may be allocated to one or more Clients on a random basis.

**Cross Trades.** Cross trades occur when AQR Arbitrage arranges for the purchase and sale of a security between certain types of Clients at an AQR Arbitrage specified price. Under certain conditions, AQR Arbitrage



is permitted to enter into cross trades provided they are executed in compliance with the Advisers Act and, if pertinent, the Company Act.

**Principal Trades.** To the extent that AQR Arbitrage engages in a principal transaction covered by Section 206(3) of the Advisers Act due to the ownership interest in a Client by AQR Arbitrage, its affiliates or its personnel, AQR Arbitrage will comply with the requirements of Section 206(3) of the Advisers Act, including that AQR Arbitrage will notify the applicable Client (or an independent representative of the Client) in writing of the transaction and obtain the Client's consent (or the consent of an independent representative of the Client). Section 206(3) of the Advisers Act only applies with respect to principal transactions involving the purchase or sale of securities (and not, for the avoidance of doubt, commodities, currencies or many of the other financial instruments in which a Client may trade).

**Incident Handling Policy.** AQR Arbitrage classifies trade errors pursuant to its own error correction policies and procedures as those orders executed by GT without instructions or not in accordance with AQR Arbitrage portfolio management team's instructions that impact a Client's account. Discernible net realized losses incurred by a Client(s) due to such a trade error or due to AQR Arbitrage's breach of a Client guideline or a regulatory requirement (subject to the applicable terms of the investment management agreement) are generally reimbursable by AQR Arbitrage. However, process enhancements, errors or other incidents that occur in connection with AQR Arbitrage's design, programming or use of models and/or data sources in the investment management process that may negatively impact a Client's portfolio are deemed "process incidents". Process incidents are not considered trade errors subject to reimbursement under AQR Arbitrage's policies and are assessed on a case-by-case basis, in AQR Arbitrage's discretion based on factors it considers reasonable. In addition, operational events may occur in connection with other activities, unrelated to AQR Arbitrage's investment management process, (e.g., net asset value calculation and cash flow recognition). AQR Arbitrage addresses operational events on a case-by-case basis, in its discretion based on factors it considers reasonable, including regulatory requirements, contractual obligations, and business practices. AQR Arbitrage in its discretion may reimburse discernable net realized losses incurred by a Client due to an operational event.

While AQR Arbitrage will attempt to correct an error promptly, correction of errors may be delayed in certain cases where investigation of the error is necessary or where consultation with a particular Client is sought. AQR Arbitrage may correct trade errors through any of a number of means, such as canceling a trade, correcting an allocation, or correcting a trade error in a Client account. Where permitted by applicable laws, regulations, and contractual obligations, AQR Arbitrage may correct a trade error through an error account held in AQR Arbitrage's or a third party's name. AQR Arbitrage will not use another Client's account to reimburse trade errors, nor will commission or "soft dollars" (to the extent there are any) be used to correct Adviser trade errors.

In general, it is AQR Arbitrage's policy to notify clients of incidents corrected post-settlement that violate a guideline and certain errors that are otherwise compensable. Generally, AQR Arbitrage will not notify Clients or investors of non-compensable errors or incidents. AQR Arbitrage may agree to comply with a specific Client's policies regarding the handling of errors that may be different from the policies set forth above.

### Item 13 – Review of Accounts

AQR Arbitrage's portfolio managers, client administration analysts, and the Compliance Department of its affiliate, AQR, 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's account. The level of review and guidance provided by AQR Arbitrage's portfolio management personnel varies based upon facts and circumstances specific to individual Clients. Generally, a review of a Client's account includes specific instruments held, adherence to investment guidelines, and account performance.

Although AQR Arbitrage reviews each Client's account on a regular basis, there are facts and circumstances which will prompt *ad hoc* reviews. Significant market events affecting the prices of one or more instruments 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 a particular Client's account.

In addition, various investment committees of the Adviser are responsible for monitoring investment strategies employed by the respective portfolios. These committees generally have an overall responsibility for monitoring the portfolios' investments.

Subscribers in Sponsored Funds are generally furnished (i) as soon as practicable after the end of each fiscal year, written 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, written unaudited reports on the operations of the relevant Sponsored Fund(s) which include a statement of the net asset value of the Subscriber's interest in such Sponsored Fund(s). Subscribers in Sponsored Funds receive reports from AQR Arbitrage pursuant to the terms of each Sponsored Funds' offering memoranda or investor Side Letter.

## Item 14 – Client Referrals and Other Compensation

### Relationships with Consultants

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

AQR Arbitrage has extensive dealings with investment consultants, both in the consultants' role as adviser for their clients and through independent business relationships. Specifically, AQR Arbitrage provides consultants with information on portfolios it manages for its mutual clients, pursuant to its Clients' directions. AQR Arbitrage also provides information on its investment styles and performance to consultants, who use that information in connection with searches they conduct for their clients. AQR Arbitrage also responds to "Requests for Proposals" from prospective clients in connection with those searches. In addition, in certain circumstances:

- AQR Arbitrage may invite consultants to events or other entertainment hosted by AQR Arbitrage.
- AQR Arbitrage 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 may provide AQR Arbitrage with the opportunity to discuss a variety of business topics with consultants, Clients, and prospective Clients.
- In some cases, AQR Arbitrage may serve as investment adviser for the accounts of consultants or their affiliates or as adviser or sub-adviser for funds offered by consultants and/or their affiliates.

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

### Relationships with Brokers

As discussed in Item 12 – Brokerage Practices, AQR Arbitrage currently does not have any soft dollar arrangements. AQR Arbitrage does receive research and brokerage services from certain counterparties that execute trades for Clients. As noted in Item 12 – Brokerage Practices, with regard to inducement rules under MiFID II, where applicable, AQR Arbitrage takes a global unbundling approach and pays for external research and data out of its own or an affiliate's assets. AQR Arbitrage has a duty to seek overall best execution of transactions for Clients and has instituted internal controls and procedures designed to ensure that AQR Arbitrage is receiving best execution for Client transactions over time, taking into account all pertinent factors.

## Item 15 – Custody

AQR Arbitrage is deemed to have custody of the assets of AQR Arbitrage-Sponsored Funds by virtue of AQR Arbitrage's or its affiliates' control over such funds' assets or role as general partner and/or managing member of such funds. Investment advisers with custody of client funds or securities are required to comply with the requirements of Rule 206(4)-2 of the Advisers Act. AQR Arbitrage does not have actual physical custody of any investor funds 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. Each applicable fund is audited annually by an independent public accountant, and investors receive annual financial statements within 120 days following such fund's fiscal year end, as required by applicable law.<sup>7</sup>

AQR Arbitrage does not custody the assets of the Managed Accounts, AQR Mutual Funds, and AQR UCITS. 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 separately managed accounts with at least quarterly account statements relating to the assets held within the account advised by AQR Arbitrage. 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 Arbitrage and the qualified custodian.

In addition to the account statements provided by qualified custodians to AQR Arbitrage's Managed Accounts, AQR Arbitrage also provides account statements to Managed Accounts on a periodic basis. These statements are intended to complement, not replace, the statements provided by the Managed Account's qualified custodian. As such, AQR Arbitrage encourages Managed Accounts to compare the statements provided to them by AQR Arbitrage 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 Arbitrage'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.

<sup>7</sup> Private Funds that rely on CFTC Rule 4.7 provide their Subscribers with annual reports within 90 days of the Sponsored Fund's fiscal year end.

## Item 16 – Investment Discretion

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

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

The agreement gives the Adviser the authority to determine the timing and amount of securities and other instruments to be purchased and sold for the Client account (subject to restrictions on AQR Arbitrage's activities set forth in the applicable agreement, any written investment guidelines and applicable law). Because of the differences in Client investment objectives and strategies, risk tolerances, tax status, liquidity considerations, and other criteria, there may be differences among Clients in invested positions and amounts held. Please see Item 12 – Brokerage Practices.

From time to time, certain securities, non-securities contracts and/or other investment instruments that are or were held by Clients are the subject of a class action or other legal proceeding. AQR Arbitrage, through AQR, utilizes the services of Financial Recovery Technologies ("FRT") to identify, analyze, assert and file claims in class actions and other legal proceedings on behalf of its UCITS Funds, Sponsored Funds and Series Funds. FRT retains a percentage of any recovery, subject to certain maximums, as payment for the claims that it files on behalf of Clients.



## Item 17 – Voting Client Securities

AQR Arbitrage's authority to vote proxies for its Clients, if granted, is established by its investment advisory agreements or comparable documents. AQR Arbitrage has established proxy voting policies and procedures, and AQR's Compliance Department monitors the proxy voting process. The proxy voting procedures are designed to ensure that proxies are voted in the Clients' best interest. AQR Arbitrage will generally vote proxies according to the proxy voting guidelines adopted by AQR Arbitrage and agreed upon with an independent third-party proxy voting advisor. From time to time, AQR Arbitrage will determine to vote a particular proxy contrary to the agreed upon voting guidelines which could give rise to potential conflict of interest. AQR Arbitrage's Proxy Voting Policy includes guidelines to identify and resolve conflict of interests related to voting proxies on behalf of AQR Arbitrage's Clients.

AQR Arbitrage's authority to vote proxies for its Clients is not a material component of any of AQR Arbitrage's investments or strategies. AQR Arbitrage typically follows a systematic, research-driven approach, applying quantitative tools to process fundamental information and manage risk, significantly reducing the importance and usefulness of the proxies AQR Arbitrage receives and votes, or causes to be voted, on behalf of its Clients. Additionally, from time to time, AQR Arbitrage may not or may not be able to cast a vote prior to the cutoff date for reasons including, but not limited to, timing of transferring proxy information or account setup. AQR Arbitrage does not view non-voted proxy ballots to be a material issue for either the Clients or AQR Arbitrage's investment strategies.

Upon request, AQR Arbitrage will provide Clients with a copy of its proxy voting policies and procedures and information on how the Client's proxies were instructed to be voted. In certain circumstances, 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 Arbitrage indicating such intention and provide written instructions directing AQR Arbitrage to vote in regard to the particular solicitation. Where such prior written notice is received, AQR Arbitrage will vote proxies in accordance with such written instructions received from the Client on a best effort's basis.

AQR Arbitrage from time to time discusses governance matters with issuers to represent Client interests; however, regardless of such conversations, AQR Arbitrage acquires securities on behalf of Clients solely for the purpose of investment and not with the purpose or intended effect of changing or influencing the control of any issuer.



## Item 18 – Financial Information

This Item is not applicable.