Investor Guide
Long/Short Equity

Key Ideas

• Long/Short Equity is a category of liquid alternatives with a long track record
• These strategies are generally designed to generate long-term capital appreciation, with less risk than broad market equities
• Our approach incorporates bottom-up, fundamentally driven stock selection and top-down decisions based on broad economic information

Please read important disclosures.
Disclosures

Foreign investing involves special risks such as currency fluctuations and political uncertainty. The use of derivatives, forward and futures contracts, and commodities exposes the Fund to additional risks including increased volatility, lack of liquidity, and possible losses greater than the Fund’s initial investment as well as increased transaction costs. This fund enters into a short sale by selling a security it has borrowed. If the market price of a security increases after the Fund borrows the security, the Fund will suffer a potentially unlimited loss when it replaces the borrowed security at the higher price. Short sales also involve transaction and other costs that will reduce potential Fund gains and increase potential Fund losses. When investing in bonds, yield and share price will vary with changes in interest rates and market conditions. Investors should note that if interest rates rise significantly from current levels, bond total returns will decline and may even turn negative in the short term. There is also a chance that some of the fund’s holdings may have their credit rating downgraded or may default.

This Fund is not suitable for all investors. An investor considering the Funds should be able to tolerate potentially wide price fluctuations. The Funds may attempt to increase its income or total return through the use of securities lending, and they may be subject to the possibility of additional loss as a result of this investment technique. Risk allocation and attribution are based on estimated data, and may be subject to change.

Investors should carefully consider the investment objectives, risks, charges and expenses of the Funds before investing. To obtain a prospectus containing this and other important information, please call 1-866-290-2688 or visit www.aqrfunds.com to view or download a prospectus online. Read the prospectus carefully before you invest.

There are risks involved with investing including the possible loss of principal. Past performance does not guarantee future results. AQR Funds are distributed by ALPS Distributors, Inc. AQR005097 6-10-2017.

Diversification does not eliminate the risk of losses.

Definitions:

**S&P 500 Index**: a market value weighted index consisting of 500 stocks chosen for market size, liquidity, and industry grouping, and is meant to reflect the risk/return characteristics of the large cap universe.

**Barclays Capital Global Aggregate Bond Index**: is a broad-based index used to represent global investment grade bonds being traded in 24 difference local currency markets.

**MSCI World Index**: a market capitalization weighted index that is designed to measure the equity market performance of developed markets. The MSCI World Index consists of the following 23 developed market indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland,
Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, United Kingdom and the United States.

**Credit Suisse Long/Short Equity Hedge Fund Index**: a subset of the Credit Suisse Hedge Fund Index that measures the aggregate performance of long/short equity funds.

**Sharpe Ratio**: a performance measure that takes into account an investment’s risk.

**Volatility**: a measure of variation of a price of a financial instrument over time.

**Maximum Drawdown**: a measure of the largest single drop from peak to trough in the value of an investment.

One cannot invest directly in an index.
A Brief History of Long/Short Equity

In 1949 Alfred Winslow Jones created what he called a “hedged fund,” starting off the modern hedge fund industry. His original idea was straightforward: he would buy stocks that he believed would perform well, and go “short” stocks that he thought would not perform as well. This would allow him to “buy more good stocks without taking as much risk as someone who merely buys.” Jones’ long/short equity fund performed extremely well — recording an annualized performance of nearly 22% from 1949 to 1968 — compared to the S&P 500, which posted annualized returns of approximately 12% over that period. Despite his success, it was not until the mid-1960s that mutual funds began to adopt his strategy. The Hubshman Fund launched in 1966, becoming the first long/short equity mutual fund.

Since then, the long/short category has become an important part of the liquid alternatives universe. As of the end of 2012, there were 89 mutual funds categorized by Morningstar as long/short equity funds, managing over $32 billion. Part of this growth has likely been driven by performance. Since 1994, long/short equity funds (as measured by hedge fund indexes) have outperformed equity markets, with less risk (Exhibit 1).

Exhibit 1: Hypothetical Performance Comparison (01/01/1994-12/31/2014)

<table>
<thead>
<tr>
<th>Annualized Returns</th>
<th>Volatility</th>
<th>Sharpe Ratio</th>
<th>Max Drawdown</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSCI World</td>
<td>7.0%</td>
<td>15.1%</td>
<td>0.27</td>
</tr>
<tr>
<td>Long/Short Equity Index</td>
<td>9.4%</td>
<td>9.5%</td>
<td>0.68</td>
</tr>
</tbody>
</table>

Source: AQR. For illustrative purposes only. Long/Short Equity Index is the Credit Suisse Long/Short Equity Hedge Index. Past performance does not guarantee future results.

We believe that the transition from hedge fund to mutual fund formats has benefitted many investors, as these strategies now have better transparency and often cost less than the traditional “2 and 20” (2% management fee and 20% performance fee) charged by many hedge funds.

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Footnotes:

1 Going short a stock is selling a borrowed stock with the promise of returning it after buying it in the future (hopefully at a lower price).
A More Deliberate Approach to Long/Short Equity

Our approach to long/short equity is based on Jones’ original fund — buying stocks that are expected to perform well and going short stocks that are expected to underperform. However, our strategy incorporates refinements, including in how it explicitly — and transparently — targets three distinct sources of returns.

The first is through general stock market exposure. It is broadly accepted that investors can expect positive returns over the long run for investing in stocks, and thus one component of our strategy allocates to a diversified stock portfolio. The second source is from tactical market exposure. Tactical exposure is designed to incorporate macroeconomic views of stock markets to modestly increase exposure when markets are deemed attractive and decrease when unattractive. The third source is individual stock selection. By buying stocks that perform better, and by shorting stocks that perform worse, we believe we can generate an additional source of returns that is independent from broad stock markets.

Long/Short Equity in a Portfolio

As shown in Exhibit 1, long/short equity strategies have provided capital appreciation with lower volatility than broad equity markets. These strategies may also offer some diversification advantages to traditional asset classes in general, and thus may be an effective complement to many portfolios. We find that long/short equity strategies may help improve average returns, reduce portfolio risk, or — in the case of the 60/40 stocks/bonds portfolio in Exhibit 2 — both.

Exhibit 2: Hypothetical Benefits in a Portfolio (01/01/1994-12/31/2014)

<table>
<thead>
<tr>
<th></th>
<th>Traditional Portfolio</th>
<th>Allocating 10% to Long/Short Equity</th>
<th>Allocating 20% to Long/Short Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annualized Return</td>
<td>6.6%</td>
<td>6.9%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Volatility</td>
<td>9.8%</td>
<td>9.5%</td>
<td>9.3%</td>
</tr>
<tr>
<td>Sharpe Ratio</td>
<td>0.38</td>
<td>0.42</td>
<td>0.46</td>
</tr>
</tbody>
</table>

Source: AQR. Traditional portfolio is a 60/40 portfolio comprised of the MSCI World and the Barclays Capital Global Aggregate Bond index. Long/Short equity is proxied by the Credit Suisse Long/Short Equity Hedge index. Past performance does not guarantee future results.

About AQR

AQR Capital Management is a global investment management firm employing a disciplined and analytical research process to macroeconomic and fundamental data. AQR’s diversified offerings range from traditional benchmark-oriented long-only strategies to absolute-return alternative strategies. AQR Funds were launched in 2009 to provide mutual funds investors access to these alternative and innovative strategies. The AQR Funds are available exclusively to institutional investors or through Financial Advisors.