AN INVESTOR'S GUIDE

Equity Market Neutral

SEEKS ATTRACTIVE RISK-ADJUSTED RETURNS

OPPORTUNITY TO PERFORM IN RISING AND FALLING MARKETS

GREATER PORTFOLIO DIVERSIFICATION

The AQR Investor Guides are designed to help investors develop a clearer understanding of how certain investment strategies work, and how AQR's distinctive approach to managing them may help investors achieve their long-term investment objectives.

What is Equity Market Neutral?

Equity Market Neutral is an alternative investment strategy that seeks capital appreciation by buying, or going long, stocks expected to perform relatively well and selling short stocks expected to perform relatively poorly — without exposing investors to the risk of overall equity markets.

A **long position** profits if the stock price rises. A **short position** profits if the stock price falls.

The long/short positions in the portfolio are chosen so that the equity market exposure of the long side is offset by the exposure of the short side. This results in a "market neutral" strategy that is insulated from broader stock market moves, up or down.

This approach of combining long and short stock positions is not new. Hedge funds have pursued these Equity Market Neutral strategies for decades to deliver diversifying results for investors.

Long Position

- Favorable view
- Expectation of relative outperformance

Short Position

- Unfavorable view
- Expectation of relative underperformance

How does Equity Market Neutral work?

It would be intuitive to believe that managers aim to make money on all their individual positions (longs and shorts). In reality, many Equity Market Neutral strategies use a "relative value" approach which targets the difference (or spread) between longs and shorts while limiting broader market risks. To illustrate this, please see the chart below.

Note that this simplified example omits many real-world considerations. There are many flavors of Equity Market Neutral investing, and investors should understand how specific funds construct their portfolios before investing.

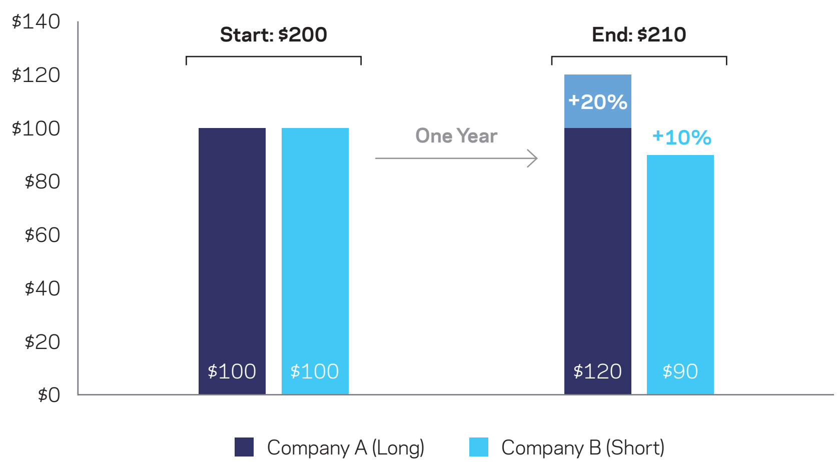
Let's assume a manager invests in two stocks in the same industry...

$100 long Company A
$100 short Company B

After one year, Company A is up 20% with a profit of $20. Company B is up 10% with a loss of $10 (because of the short).

Overall, the manager made $10 on the difference (spread) between the two stocks. More importantly, it did so without a bet on the market or the industry because it invested equal dollars long and short.

The Equity Market Neutral strategy makes a $10 profit by investing long Company A and short Company B.



Source: AQR. For illustrative purposes only.

When does it work?

The goal is for the strategy to have the potential to perform well in any market environment. By design, Equity Market Neutral strategies generally work well when the long positions in the portfolio outperform the short positions, regardless of the overall market direction.

Investors should remember that “market neutral” does not necessarily mean “strong returns when markets are down” nor does it mean “weak returns when the market is up.”

When does it struggle?

Conversely, Equity Market Neutral strategies may underperform when the long positions perform worse than the short positions. If the strategy truly is “market neutral” the direction of the stock market should have no bearing on whether these strategies perform well or poorly.

What are the benefits of Equity Market Neutral?

SEEKS ATTRACTIVE RISK-ADJUSTED RETURNS

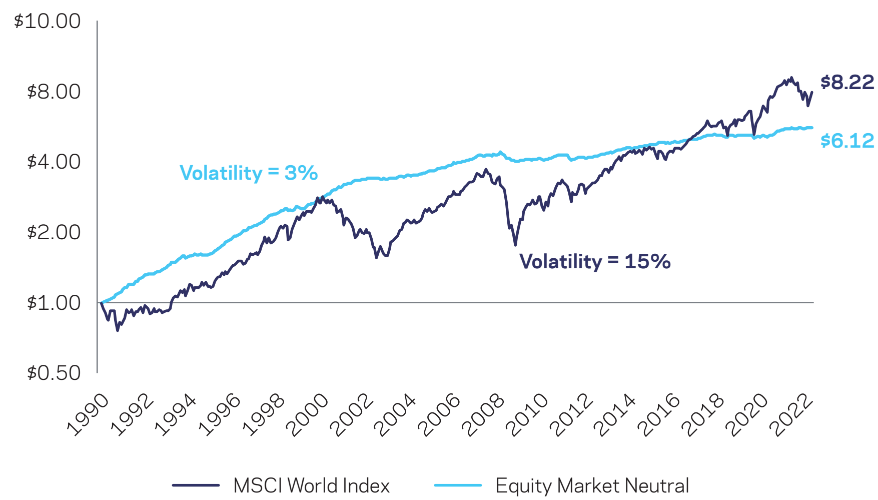
Equity Market Neutral strategies target the spread between longs and shorts to generate returns. The chart on the right illustrates that this general approach (as represented by the HFRI Equity Market Neutral Index) has exhibited comparable total returns to global equities since 1990.

These strategies have achieved this performance at a lower level of volatility, largely because they are insulated from the large swings of equity markets. The combination of competitive returns at a lower volatility makes the risk-adjusted returns (returns per unit of volatility) of these strategies even more compelling.

Equity Market Neutral has a competitive track record compared to global equities.

Growth of Hypothetical $1

January 1, 1990 – December 31, 2022



Source: AQR, MSCI, HFRI. The HFRI EH: Equity Market Neutral Index shows total returns, net of fees. Cumulative growth chart is log-scaled. Broad-based securities indices are unmanaged and are not subject to fees and expenses typically associated with managed accounts or investment funds. Investments cannot be made directly in an index. **Past performance is not a guarantee of future performance.**

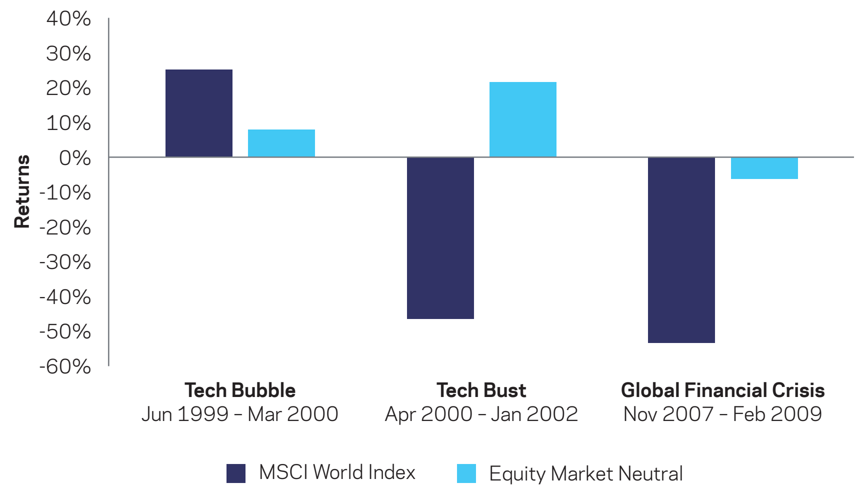
OPPORTUNITY TO PERFORM IN RISING AND FALLING MARKETS

By definition, Equity Market Neutral strategies seek capital appreciation regardless of overall market direction. To demonstrate this, the graph on the right shows the performance of the HFRI Equity Market Neutral Index during three notable equity market moves in recent decades. As you can see, neither the direction nor the magnitude of the stock market seems to impact the strategy during these periods.

Once again, market neutrality does not necessarily mean “strong returns when markets are down” or “weak returns when the markets are up.” Rather, over any short-term period, returns may move in the same or in the opposite direction of equity markets.

Equity Market Neutral during notable equity market events

January 1, 1990 – December 31, 2022

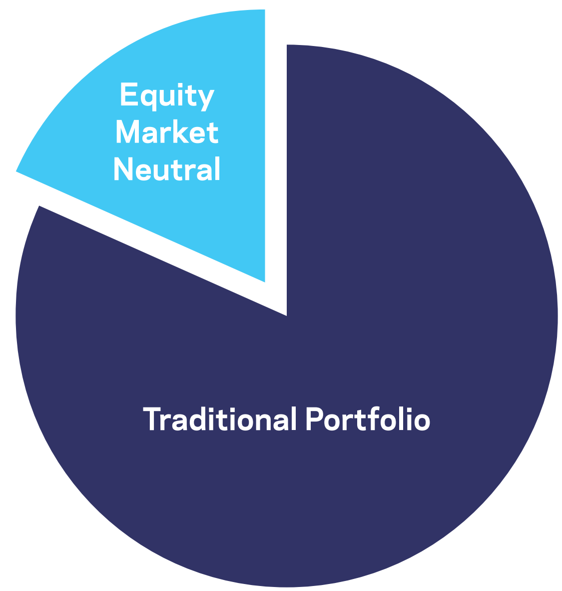


Source: AQR, MSCI, HFRI Equity Market Neutral. Broad-based securities indices are unmanaged and are not subject to fees and expenses typically associated with managed accounts or investment funds. Investments cannot be made directly in an index. **Past performance is not a guarantee of future performance.**

GREATER PORTFOLIO DIVERSIFICATION

Most investors' portfolios are less diversified than they appear. For example, traditional portfolios that allocate 60% to equities and 40% to bonds, tend to be highly correlated to the stock market.[1] And, because equities are more volatile than bonds, they can dominate the portfolio's overall risk profile and drive the types of returns the portfolio may experience.

Equity Market Neutral strategies go both long and short stocks spanning many industries and geographic regions, and have historically exhibited returns that are independent of traditional asset classes. Hence, incorporating Equity Market Neutral into a traditional portfolio allocation may provide additional diversification benefits such as lowering the portfolio's overall volatility, reducing drawdowns and improving risk-adjusted returns.[2]



[1] Source: MSCI, Bloomberg, Barclays. A Global 60/40 portfolio consisting of 60% the MSCI World Index and 40% the Bloomberg-Barclays Global Aggregate Bond Index has exhibited a 1.0 correlation with the MSCI World Index (standalone) from 2/01/1990– 12/31/2022, using monthly returns.

[2] Source: (Feghali, Villalon), 2015.

How does Equity Market Neutral fit into a portfolio?

Given its propensity to be diversifying to traditional assets, Equity Market Neutral should be viewed as a valuable component of a long-term strategic asset allocation. Over time, the strategy may help to reduce risk, improve risk-adjusted returns and mitigate the likelihood of large losses for the overall portfolio.

There are many design choices that Equity Market Neutral managers make when constructing portfolios, and these choices can lead to meaningfully different results. It is important to evaluate whether managers utilize a repeatable investment process to generate returns from the spread between long and short positions, and not from market exposure.

Like any investment strategy, Equity Market Neutral can go through challenging periods of performance. We believe that investors who develop a clear understanding of how the strategy works and the role it's designed to play in a portfolio will be better positioned to reap the potential diversification benefits when needed most.

About AQR

AQR is a global investment management firm dedicated to delivering results for our clients through an innovative and forward-thinking approach. Our ideas were born in academia, and education has been paramount ever since. Today, approximately half our employees hold advanced degrees. We maintain ties with top universities, financial leaders and industry influencers around the globe.

As quantitative investors, AQR lives at the nexus of economics, behavioral finance, data and technology — continuously exploring what drives markets and applying our findings in a systematic and disciplined way to our clients' portfolios. Our senior management team has been managing complex hedge fund strategies since the early 1990s. Our innovative approach has one simple purpose: to help our clients succeed through more informed investment decisions.

$95
billion in assets under management*

Founded in
1998

A pioneer in quantitative investing

A leading provider of alternative strategies

Clients representing some of the largest and most sophisticated investors around the globe

Investment opportunities spanning most asset classes and markets throughout the world

*Data as of December 31, 2022

DISCLOSURES

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. Concentration generally will lead to greater price volatility. 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.

The Equity Market Neutral Fund seeks positive absolute returns. This Fund is not suitable for all investors. An investor considering the Fund should be able to tolerate potentially wide price fluctuations. The Fund may attempt to increase its income or total return through the use of securities lending, and it 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.

Diversification does not eliminate the risk of losses.

Bloomberg Barclays Global Aggregate Bond Index: a market capitalization-weighted index, meaning the securities in the index are weighted according to the market size of each bond type. Most U.S. traded investment grade bonds are represented.

HFRI Equity Market Neutral Index: an index that tracks funds that attempt to reduce systematic risk created by factors such as exposure to sectors, market-cap ranges, investment styles, currencies, and/or countries. They try to achieve this by matching short positions within each area against long positions.

MSCI World Index: a free float-adjusted, market-capitalization-weighted index that is designed to measure the equity market performance of developed markets.

Volatility: volatility is a statistical measure of the dispersion of returns for a given security or market index.

Drawdown: peak-to-trough decline during a specific recorded period of an investment.

One cannot invest directly in an index.

Investors should carefully consider the investment objectives, risks, charges and expenses of the funds before investing. To obtain a prospectus or summary prospectus containing this and other important information, please call 1-866-290-2688 or visit www.aqrfunds.com to view or download a prospectus or summary prospectus online. Read the prospectus or summary 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. AQR Capital Management, LLC is the Investment Manager of the Funds and a federally registered investment adviser. ALPS Distributors is not affiliated with AQR Capital Management or its affiliates.
AQR009266 Expiration date: 2/28/2024

aqr.com

AQR Capital Management, LLC One Greenwich Plaza, Greenwich, CT 06830 **P** +1.203.742.3600 **F** +1.203.742.3100