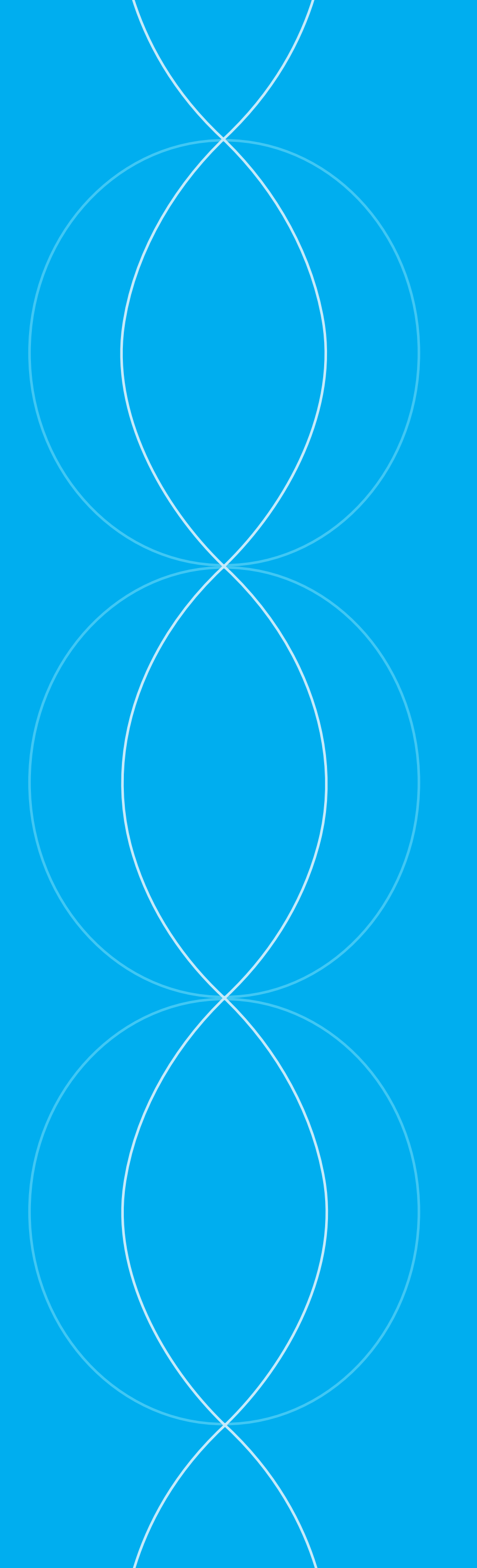
Long/Short Equity Strategy

SEEKS ATTRACTIVE TOTAL RETURNS

LESS DOWNSIDE RISK

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 Long/Short Equity?

Long/Short Equity is an alternative investment strategy that seeks to generate returns by buying, or going long, stocks expected to perform relatively well, and selling, or going short, stocks expected to perform relatively poorly.

A **long position** profits if the stock price rises. Conversely, a **short position** profits if the price declines.

This approach of combining long and short stock positions is not new. Hedge funds have pursued Long/Short Equity 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 Long/Short Equity work?

Long/Short Equity strategies seek to generate returns through two sources:

1 The spread between long and short positions

It would be intuitive to believe that managers aim to make money on all of their individual positions (longs and shorts). In reality, a far more common approach is to target the difference (or spread) between longs and shorts while limiting broad equity market risks.

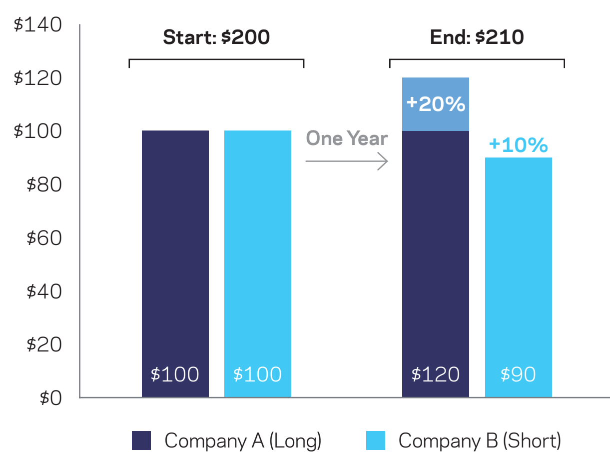
Let's assume a manager invests in two stocks in the same industry...

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

The Long/Short strategy makes a $10 profit by investing long Company A and short Company B.



Source: AQR. For illustrative purposes only.

2 Net long overall exposure

In Long/Short Equity strategies, the long positions typically outweigh the short positions, resulting in a "net long" exposure to global equity markets. Therefore, when the stock market goes up, it will positively affect the strategy's performance, and vice versa if the stock market goes down.

Importantly, these strategies have a reduced sensitivity (typically about half) to the stock market. For example, if the stock market is up 10% over a given period, a reasonable expectation for the "net long" component of Long/Short Equity strategies is to be up approximately 5%.

When does it work?

Long/Short Equity strategies may work when the two return sources described earlier perform well. First, the portfolio will benefit when the long positions perform better than the short positions.

The second component relies solely upon market direction: when the stock market goes up, it should benefit the portfolio due to the "net long" exposure to global equities. Note the strategy can work even if only one of these return sources is positive.

When does it struggle?

Conversely, Long/Short Equity strategies could struggle when these two return sources perform poorly: 1) the long positions perform worse than the short positions; and/or 2) the stock market goes down, adversely affecting the "net long" exposure to global equities. Similarly, the strategy could suffer if only one of these return sources performs particularly poorly.

What are the benefits of Long/Short Equity?

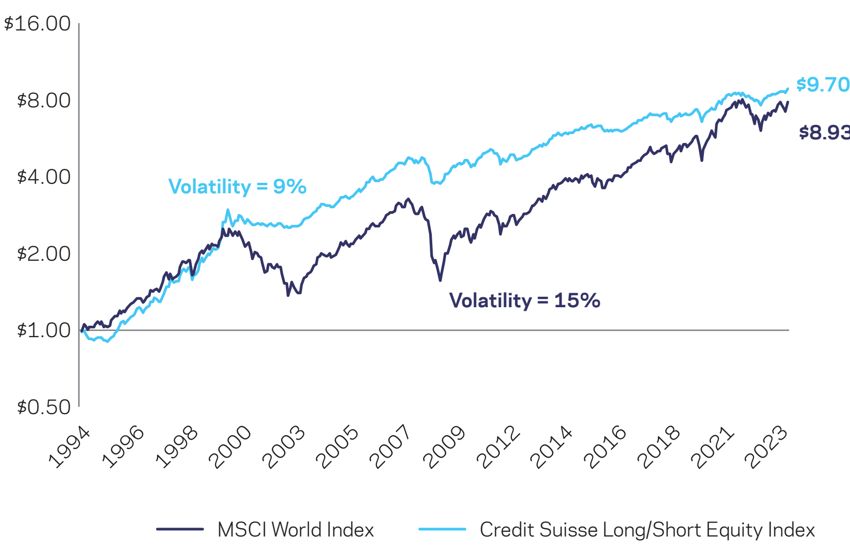
SEEKS ATTRACTIVE TOTAL RETURNS

Long/Short Equity strategies target the spread between long positions and short positions while also participating in equity market performance. The chart on the right illustrates that this approach, as represented by the Credit Suisse Long/Short Equity Index, has performed well versus global equities since 1994.

Moreover, this approach has also proven to generate these results at a lower level of volatility. Because Long/Short Equity strategies have reduced exposure to equity markets, they are less susceptible to broader market movements. In seeking to deliver positive returns with less volatility than the broader market, long/short equity strategies may offer investors a "smoother ride" over time.

Long/Short Equity has historically performed well versus global equities.

Growth of Hypothetical $1
January 1, 1994 – December 31, 2023



Source: AQR, MSCI, Credit Suisse. Long/Short Equity Index is the Credit Suisse Long/Short Equity Index. 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.**

LESS DOWNSIDE RISK

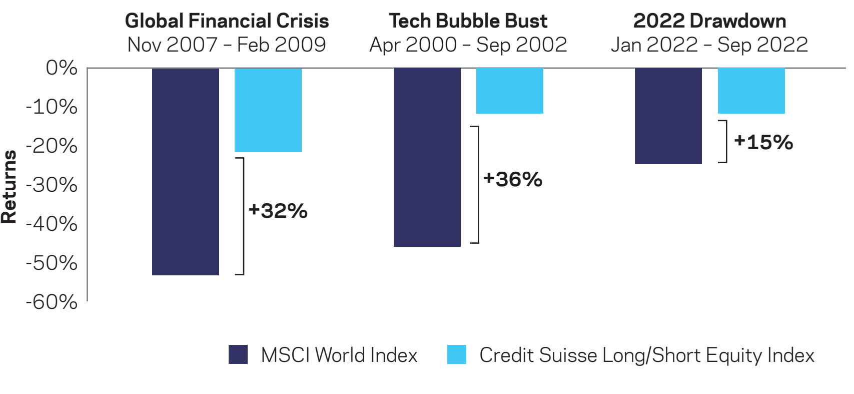
In addition to favorable long-term returns, Long/Short Equity strategies tend to provide investors with an attractive risk profile when they need it most – during market downturns.

To the right are the three worst drawdowns over the past 20 years for global equity markets. As you can see, Long/Short Equity (represented by the Credit Suisse Long/Short Equity Index) has fared better than global equities.

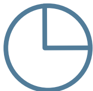
Note, because these strategies are "net long" equity markets they are expected to experience negative performance during these market environments. However, the reduced sensitivity to bear markets means that Long/Short Equity strategies may have the propensity to weather tougher periods.

Long/Short Equity has outperformed during the largest drawdowns for global equities.

January 1, 1994 – December 31, 2023



Source: AQR, MSCI, Credit Suisse. Long/Short Equity Index is the Credit Suisse Long/Short Equity Index. 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.**



PORTFOLIO DIVERSIFICATION

Most investors' portfolios are less diversified than they appear. Traditional portfolios, for example, 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.

Long/Short Equity strategies that go both long *and* short stocks, spanning many industries and geographic regions, may be a good solution for investors looking to experience a new source of returns.

When alternative Long/Short Equity strategies are added to a traditional portfolio, it can lead to better results by meaningfully lowering the portfolio's overall volatility, reducing its drawdowns and improving its risk-adjusted returns.[2] In other words, these diversification benefits may offer investors a "smoother ride" over time.

Long/Short Equity
Traditional Portfolio

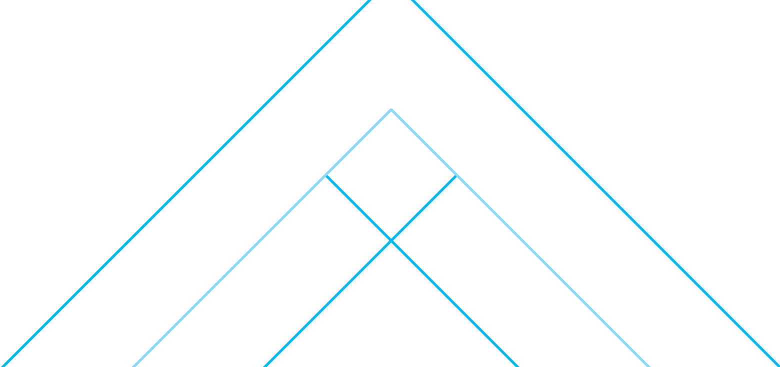
[1] Source: MSCI, Bloomberg, Barclays. A Global 60/40 portfolio consisting of 60% the MSCI World Index and 40% the Bloomberg-Barclays Global Aggregate Bond Index has exhibited a 1.0 correlation with the MSCI World Index (standalone) from 2/01/1990- 12/31/2023, using monthly returns.

[2] Source: **Building a Better Long/Short Equity Portfolio** (Feghali, Friedman, Villalon), 2013.

How does Long/Short Equity fit into a portfolio?

Because Long/Short Equity strategies seek to offer equity-like returns with less risk, they may be a compelling option for investors seeking to reduce overall equity risk without commensurately foregoing returns.

Further, there are many design choices that Long/Short Equity managers make when constructing portfolios that can lead to meaningfully different results. It is important to evaluate a manager's investment process to determine if they aim to generate unique returns from the spread between long and short positions, or just from market exposure. If the latter, this manager might not be very diversifying from long-only equity approaches and may not provide much protection from market declines. These details should play an integral role in any investment decision.



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.

$99 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, 2023.

DISCLOSURES

While the investment strategy discussed in the brochure is similar to that pursued by the AQR Long-Short Equity Fund there are material differences between the two. Specifically (but not necessarily limited to), that performance of the indices included in the brochure does not reflect performance of the Fund, that the time periods illustrated for those indices significantly predate the inception date of the Fund, and that other specific characteristics attributed to the strategy are not applicable to the Fund.

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 AQR Long/Short Equity Fund seeks capital appreciation. 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.

Credit Suisse Hedge Fund Index: an asset-weighted hedge fund index that uses the Credit Suisse Hedge Fund Database, which tracks approximately 9,000 funds and consists only of funds with a minimum of U.S.$50 million under management, a 12-month track record and audited financial statements. The index is calculated and rebalanced on a monthly basis, and reflects performance net of all hedge fund component performance fees and expenses.

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

S&P 500 Index: a free-float, market-capitalization-weighted index of 500 of the largest U.S. companies. The index is calculated on a total return basis with dividends reinvested.

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.

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