Multi-Strategy Alternatives

SEEKS ATTRACTIVE RISK-ADJUSTED RETURNS

OPPORTUNITY TO PERFORM IN RISING AND FALLING MARKETS

A CORE ALLOCATION TO CLASSIC HEDGE FUND STRATEGIES
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 are Multi-Strategy Alternatives?

Put simply, alternative investment strategies are anything outside the conventional realm of stocks, bonds and cash. They are typically added to an investor’s portfolio with the goal of generating returns that are independent of traditional fixed income and equity markets.

Multi-Strategy Alternatives take a diversified approach to alternative investing — offering a broad collection of classic hedge fund strategies in one efficient portfolio. The types of hedge fund strategies it includes can be grouped into three categories:

**Arbitrage Strategies**
Seek to capture relative mispricings between two related assets.

**Equity-Oriented Strategies**
Seek to take advantage of market inefficiencies that cause specific stocks to be under- or overpriced.

**Macro Strategies**
Seek to profit from dislocations in global stock, bond, currency and commodity markets, including those driven by investors’ behavioral biases.
How do Multi-Strategy Alternatives work?

Alternative strategies seek to generate returns using techniques that are less constrained than traditional long-only strategies. For example, alternatives invest “long” and “short” to take advantage of relative price movements between different assets. A long stock position profits if the stock price rises. Conversely, a short stock position profits if the stock price declines.

The combination of long and short positions has the potential to generate positive returns in both rising and falling markets. Likewise, losses may occur regardless of market direction.

Multi-Strategy Alternatives invest in a diverse collection of strategies designed to provide positive absolute returns over the long term.

Long/short strategies seek to generate positive returns in up and down markets.

In an up market, both stocks rise and the strategy earns $2.

- $10 invested long stock A
- $10 short stock B
- Stock A (+11%)
- Stock B (+9%)
- Profit: +$11
- Loss: -$9

In a down market, both stocks fall and the strategy earns $2.

- Stock A (-9%)
- Stock B (-11%)
- Loss: -$9
- Profit: +$11

Source: AQR. The charts above are an illustration and are not representative of actual investments.
When do they work?

There are numerous types of hedge fund strategies, each of which tends to perform well at different times for different reasons. The chart below illustrates how performance can vary among hedge fund strategies from year to year. Multi-Strategy Alternatives tend to do well when the “winners” contribute more than the “losers,” and all of the strategies have low correlation to each other.

When do they struggle?

Although the underlying strategies are intended to be diversifying to each other, when one or more strategies significantly underperforms, the overall portfolio is likely to suffer losses.

Additionally, in most of the strategies, security selection is driven by economic fundamentals. Therefore, periods when security prices do not accurately reflect their intrinsic value tend to be environments where the strategy may suffer losses.

<table>
<thead>
<tr>
<th>Hedge fund strategy performance will vary over time.</th>
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<tbody>
<tr>
<td>Global Macro</td>
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<td>Event Driven</td>
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<td>Convertible Arbitrage</td>
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<td>Managed Futures</td>
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Sources: AQR and Credit Suisse Hedge Fund Indexes. Past performance does not guarantee future returns. Returns for all strategies have been adjusted to remove the contribution of market exposure to the MSCI World Index, excess of the U.S. 3-Month Treasury Bills. No data is available for the Credit Suisse Dedicated Short Bias Index after 12/31/2017 due to the index provider ceasing to track this index.
SEEKS ATTRACTIVE RISK-ADJUSTED RETURNS

Multi-Strategy Alternatives rely on a systematic process to select securities based on consistent and repeatable drivers of return. In doing so, the strategy seeks to eliminate human emotion and behavioral biases from the decision-making process.

Multi-Strategy Alternatives combine several distinct hedge fund strategies, as shown in the chart to the right. Because each strategy seeks to capture a unique source of return, the combination is designed to increase the overall efficacy of the portfolio. Allocating an even amount of risk to each strategy and maintaining diversification through time seeks to further enhance the consistency of returns.

What are the benefits of Multi-Strategy Alternatives?

Diversified across nine distinct strategies:

- Event Driven
- Convertible and Volatility Arbitrage
- Equity Market Neutral
- Long/Short Equity
- Emerging Markets
- Global Macro
- Managed Futures
- Fixed Income Relative Value

Source: AQR. For illustrative purposes only. Diversification does not eliminate the risk of experiencing investment losses.
OPPORTUNITY TO PERFORM IN RISING AND FALLING MARKETS

By buying and selling stocks, bonds, currencies and commodities in roughly equal amounts, alternative strategies seek to profit if broader markets go up, down or stay flat. They tend to perform more consistently than stocks or bonds because they do not require favorable economic conditions to do well. The graph below demonstrates how alternatives have performed positively with fewer peaks and valleys than stocks, and with higher returns than bonds.

Additionally, alternatives outperformed the stock market during the tech bubble and bust, and fared better than stocks in the global financial crisis.

Alternatives have been less sensitive than stocks to market fluctuations and have outperformed bonds over the long term.
January 1, 1994 – December 31, 2019

Alternatives vs. stocks in up and down markets

Sources: AQR and Credit Suisse. Alternatives are represented by the Credit Suisse Hedge Fund Index; stocks by the S&P 500 Index; bonds by the Barclays U.S. Aggregate Bond Index. Past performance does not guarantee future returns.
A CORE ALLOCATION TO CLASSIC HEDGE FUND STRATEGIES

There are a variety of approaches for investors who want diversified exposure to hedge fund strategies. For example, they can manage the allocations to many single-strategy investments or invest in a single portfolio that provides balanced exposure to multiple strategies.

With a multi-strategy approach, the manager ensures...

✓ Each strategy within the portfolio is distinct from the others
✓ Diversification is maintained across market environments
✓ The portfolio is tactically adjusted to seek attractive opportunities
✓ Unintended risks are proactively managed
✓ Transaction costs are netted across strategies

Multi-Strategy Alternatives take a more holistic approach to creating and managing the portfolio. Investors may benefit from the simplicity of Multi-Strategy Alternatives. They provide exposure to nine hedge fund strategies with a single investment, offering a convenient, balanced, core solution.

Source: AQR. Diversification does not eliminate the risk of experiencing investment losses.
How do Multi-Strategy Alternatives fit into a portfolio?

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

Like any investment strategy, Multi-Strategy Alternatives 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 is designed to play in a portfolio will be better positioned to stay invested over the long term and reap the potential diversification benefits when needed most.

Source: AQR. Past performance does not guarantee future returns.
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.

- 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, 2019.*
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 AQR Multi-Strategy Alternative Fund seeks long-term positive absolute return. The Fund does not invest directly in hedge funds, but pursues strategies similar to those traditionally employed by hedge funds. 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 U.S. Aggregate Bond Index: a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market.

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.

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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