AQR | CAPITAL MANAGEMENT

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Dear Investor,

Many of you may have heard rumors concerning us over the last few days. If the rumors are that we've had better weeks, then they are accurate. If the rumors are that we are in some pain over the recent widespread quant stock selection woes, then they are accurate. If the rumors are more severe than that, then they are simply false.

To summarize things you probably know, AQR's business is quite diversified consisting of an estimated $27 billion in traditional products and $10 billion in absolute return hedge funds. Our business is stable and healthy, and we have top-notch clients who, like us, focus on the long-term.

This month our stock selection strategy, which involves, among other things, looking for companies to buy possessing good value, momentum, and earnings quality characteristics (and the opposite to short), has come under severe pressure. It is notable that this is only one of the many things that we do, and our family of macro oriented funds is posting a meaningfully positive month. Our stock selection investment process, a long-term winning strategy, has very recently been shockingly bad for us and for all of those pursuing similar strategies. We believe that this has occurred as the very success of the strategy over time has drawn in too many investors. Now we are witnessing some of them exit, and then with reductions by almost all participants it's painful. I occasionally hear broad statements like “this just shows computer models don’t always work.” That’s true, of course, they don’t, nothing always works. However, this isn’t about models, this is about a strategy getting too crowded, as other successful strategies both quantitative and non-quantitative have gotten many times in the past, and then suffering when too many try to get out the same door. We knew this was a risk-factor but, like most others, in hindsight, we underestimated the magnitude and the speed with which danger could strike.

We manage a variety of products for our clients and those that do not include stock selection have been generally unaffected by the recent market dislocations, with some having meaningfully positive performance this month. However, our two hedge funds that concentrate solely on quantitative stock selection have admittedly performed more poorly than would be predicted in “regular” drawdowns (with funds that do some stock selection affected proportionately). But, this is decidedly not a regular drawdown. It’s a deleveraging of historical proportions. In the face of this dramatically increased risk profile, we have temporarily been managing a reduction of our notional exposure to these strategies in the several hedge funds where they are utilized. Despite this reduction, we strongly view that the exit of many others from this style of stock picking represents a striking opportunity for future gains, which we fully intend to capitalize on for our clients. To that end, we’ve already seen increased client demand for our aggressive market-neutral equity fund.

Most of all, we remain a diversified and stable business which is able to view dislocations like this recent one as an opportunity. Running the risk of unusual events is part-and-parcel of what we do, and we are strong believers that it will pay off over the long-term.

Thank you for your investment and please do not hesitate to contact me with any questions.

Sincerely,

Clifford S. Asness
Managing & Founding Principal