A HISTORY OF AQR
Innovation and Excellence
AQR’s story begins at the University of Chicago, where the foundation for the firm’s philosophy was established.

Cliff Asness, in his second year of the PhD program, earned the coveted appointment of teaching and research assistant to Gene Fama, known for market efficiency research. For his dissertation, however, Cliff chose to focus on momentum investing, a challenge to market efficiency. It was in Fama’s class that Cliff met his future co-founders, John Liew and Robert Krail, both PhD students at the time.

While still working on his dissertation, Cliff joined Goldman Sachs for what was to be a yearlong assignment, completing his PhD on nights and weekends. When the year came to a close, he was asked to lead a new quantitative research team for Goldman Sachs Asset Management.

John Liew and Robert Krail joined him, and the new team applied what they learned in academia to their investment philosophy. Based on the strength of their research, Goldman seeded a hedge fund. Long-only strategies and mutual funds utilizing the same investment process followed shortly thereafter.

Around the same time, David Kabiller, who worked closely with the team in his role overseeing relationships with some of Goldman Sachs’ largest pension and investment funds, co-authored “Hedge Funds Demystified: Their Potential Role in Institutional Portfolios.” The paper made the connection between hedge funds and non-correlated sources of returns — and the diversification benefits for institutional investors.

David believed — and eventually convinced his partners — that starting a new firm was the path forward.

“‘You would be surprised how much effort it takes to turn the academic into the practical. Managing money for clients involves controlling costs, managing risk and building real portfolios. Academic work is just the tip of the iceberg.’”

— John Liew
With a strong partnership and a successful track record, the founders established AQR Capital Management in 1998. The name was chosen for a very simple reason: Applied Quantitative Research was exactly what the team did, and both the applied side and the research side were of equal importance.

The firm received nearly $2 billion in subscriptions, though only took investments of $1 billion, which was one of the largest hedge fund launches at the time.

AQR’s Absolute Return strategy launched on August 3, 1998 — the start of a particularly bad month for markets. The Russian government defaulted, Long Term Capital Management blew up and the MSCI World Index fell -13.4%.

From the very beginning, AQR differentiated itself from others in the industry. The firm was one of the first hedge fund managers to voluntarily register with the SEC.

It was a choice that was made because the founders believed in the importance of holding the firm to the highest ethical standards.

The firm was unaffected, and at the outset, it looked like the strong track record the team had experienced for years before would continue.
Within just a few months of AQR’s launch, the tech bubble began. While it can be said that all value investors were in a lot of pain during this time, for AQR’s fund, a levered, market-neutral value-oriented strategy, the losses were far worse. The fund’s performance fell by nearly 40% and AUM was halved. The firm held fast to its investment philosophy and was open and transparent with clients throughout this difficult period. AQR emerged from the tech bubble with a “depression-era” perspective, with many lessons learned that ultimately shaped the future investment process.

The firm enhanced its risk management, improved drawdown controls and continued to evolve its model’s signals.

The firm’s belief in diversification was only strengthened. In 2000, AQR launched its first long-only product, an international equity fund, to complement the higher volatility hedge fund.

“The worst times in your life can sometimes end up as the times you look back on with the most pride. The tech bubble began in earnest nearly to the day we started AQR. I’m proud of sticking with our philosophy. I’m proud of how hard, and how successfully, we fought to keep our clients.”

– Cliff Asness
The Case for Diversification
Building a lasting business

By 2004, the firm was managing over $12 billion in assets — approximately half in hedge funds and half in long-only strategies — at a time when managing both was somewhat unusual.

That same year, the firm moved from New York City to its current headquarters in Greenwich, Connecticut, and soon started expanding globally with the opening of its first international office in Australia in 2005. Even as the firm continued to grow and expand, there were some headwinds. In 2007, the quant crisis weakened or shuttered many quantitative funds. While AQR emerged from this short-lived episode, the global financial crisis of 2008 followed, which shook the entire industry.

In the wake of the crisis, the firm became even more resolute in its belief in the importance of diversification. AQR recognized that many individual investors were not properly diversified going into the crisis and, as a result, suffered significant losses.

In 2009, the firm became one of the first alternative investment managers to offer mutual funds, giving individual investors access to the same set of diversifying strategies previously offered only to institutional investors.

Throughout this period, AQR broadened its product offerings, introducing some of the firm’s signature strategies. The firm’s first risk parity fund launched in 2006. DELTA, which combines a mix of classic hedge fund styles, launched in 2008, while AQR’s first Managed Futures fund launched in 2009.

Together these strategies represent the firm’s innovative approach to product development — backed by rigorous research and designed to solve clients’ investment challenges.

As AQR expanded its solutions, the firm invested time and resources in helping clients better understand its strategies and the broader investment landscape.

By 2010, the firm was managing over $33 billion in assets for a growing client base around the world.
ACADEMIC ENGAGEMENT
Exchanging ideas and advancing financial knowledge

Whether through publishing research or teaching at top universities, applied academia is a core part of AQR’s DNA. In support of new ideas and the next generation of researchers, the firm established a series of prestigious academic awards and partnerships.

The firm introduced the AQR Insight Award in 2011, which honors exceptional academic working papers with an annual $100,000 prize, embodying the firm’s culture of intellectual curiosity and application of innovative research ideas.

A year later, the AQR Top Finance Graduate Award at Copenhagen Business School was founded to recognize PhD graduates whose dissertation and research carry the greatest potential impact in both practice and academia. And in 2015, the AQR Asset Management Institute at the London Business School was established to promote excellence in asset management with awards that recognize young research talent, and events where practitioners, policymakers and academics debate, create and share ideas.

Our research has been recognized with over 50 awards and is among the most frequently cited in top journals, alongside academic institutions such as the University of Chicago, Yale University and University of Pennsylvania.

As of June 30, 2018. Source: AQR and ssrn.com
In 2015, AQR launched QUANTI A Academy, the firm’s learning and development program. The curriculum takes a differentiated, holistic approach, offering employees over 350 classes and events across three core pillars — technical skills and knowledge, leadership and management, and personal enrichment.

Employees gain expertise and perspective through experiences such as the Insights Book Club, where discussions of great books are led by renowned authors and professors, or Tech Talks, where leaders, innovators and disrupters discuss trends and developments in technology.

Through QUINTA, every individual has the opportunity to become the best version of themselves because the firm believes that when employees reach their full potential, clients are best served. Recognizing the benefits QUINTA offers both professionally and personally, in 2018, AQR began extending the program to clients.

QUINTA, the plural of quantum, is the smallest unit of many forms of energy. The name represents continuous learning through countless small interactions and formal programs. The inverted A — a formal logic symbol meaning “for all” — represents learning as a shared value across the firm.
REFLECTING ON 20 YEARS
Our culture of excellence and unwavering commitment to clients

Today, AQR is at the nexus of data, technology, economics and statistics. We offer a broad, diversified set of strategies based on a unified set of underlying principles.

We continue to challenge the status quo and apply rigorous research to our investment process. We have built a strong culture of excellence with a relentless commitment to our clients. We pursue better solutions to meet our clients’ objectives and make their challenges our most exciting opportunities.

We are proud of the lasting relationships we have built through this approach: 20 years later, many of our first investors remain clients of AQR.

We are grateful for the past 20 years and look forward to what the next two decades will bring.

— Cliff, David and John