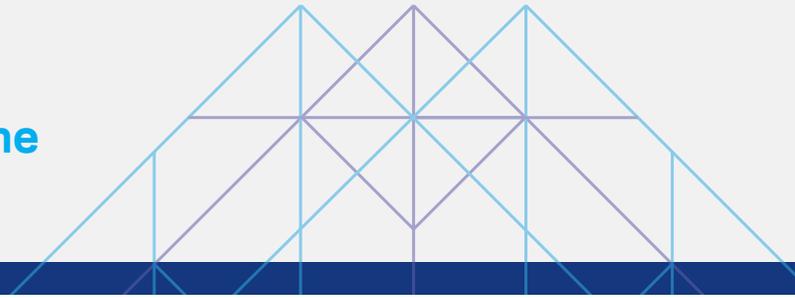




In Focus

Systematic Fixed Income



Benefits of Diversification

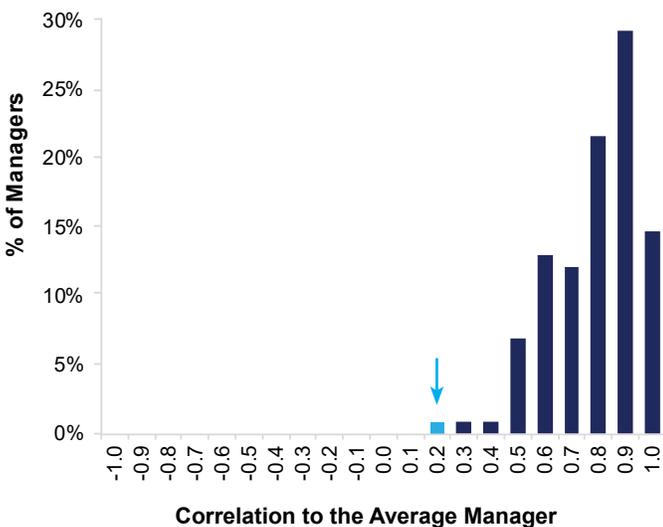
Systematic fixed income takes a rigorous, repeatable approach to investing in bonds. At AQR, we believe that a systematic approach can capture the fundamental drivers of relative performance in fixed income while preserving the diversification properties of the asset class. Our approach to core plus investing seeks total return, consisting of both capital appreciation and income. We use rigorously researched investment signals to look for attractive securities across a diverse universe of fixed income securities.

We're Doing Something Different

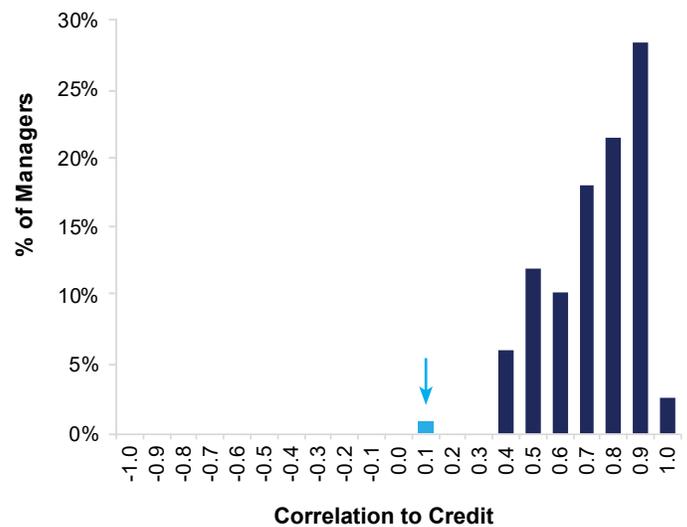
- Most core plus fixed income managers are reaching for yield. By doing so, they are increasing risk and investing in securities with a high correlation to credit.
- A hypothetical backtest of a systematic core plus bond strategy shows very little correlation to other managers or the credit market overall.
- **Why does this matter?** Credit is correlated to equities, so overweighting credit can hurt your portfolio when you need diversification the most.
- The systematic core plus strategy matches the risk profile of the benchmark while searching for outperformance through a systematic approach. It's a bottom-up security selection process that utilizes proven drivers of return, offering results that are uncorrelated to traditional managers. We believe this approach is the future of fixed income.

Core Plus Managers Are Correlated

To Each Other



And to Credit



■ The Hypothetical Systematic Fixed Income Strategy Is Not Correlated

Source: AQR, eVestment. Returns used are monthly gross of fee returns of managers in the US Core Plus category defined by eVestment benchmarked to the Bloomberg Barclays US Aggregate Index and with at least 3 years of returns for the period January 1997 through December 2017. The graph shows the distributions of correlations of active (excess of benchmark) returns of each manager compared to the average correlation amongst each other for the left chart, and the returns of the Bloomberg Barclays US High Yield Credit Excess Returns Index for the right chart. Past performance is not a guarantee of future performance. The Hypothetical Systematic Core Plus Strategy is heavily discounted, net of transaction and financing costs, and gross of fees. These are not the returns of an actual portfolio AQR managed and are for illustrative purposes only. Please see Disclosures for further detail on the backtest. Hypothetical performance results have certain inherent limitations, some of which are disclosed in the Disclosures.



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Actual performance figures contained herein reflect the reinvestment of dividends and all other earnings and represent unaudited estimates of realized and unrealized gains and losses prepared by AQR Capital Management, LLC ("AQR"). There is no guarantee as to the above information's accuracy or completeness. PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE PERFORMANCE. There is no guarantee, express or implied, that long-term return and/or volatility targets will be achieved. Realized returns and/or volatility may come in higher or lower than expected. Diversification does not eliminate the risk of experiencing investment losses.

HYPOTHETICAL PERFORMANCE RESULTS HAVE MANY INHERENT LIMITATIONS, SOME OF WHICH, BUT NOT ALL, ARE DESCRIBED HEREIN. NO REPRESENTATION IS BEING MADE THAT ANY FUND OR ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN HEREIN. IN FACT, THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN HYPOTHETICAL PERFORMANCE RESULTS AND THE ACTUAL RESULTS SUBSEQUENTLY REALIZED BY ANY PARTICULAR TRADING PROGRAM. ONE OF THE LIMITATIONS OF HYPOTHETICAL PERFORMANCE RESULTS IS THAT THEY ARE GENERALLY PREPARED WITH THE BENEFIT OF HINDSIGHT. IN ADDITION, HYPOTHETICAL TRADING DOES NOT INVOLVE FINANCIAL RISK, AND NO HYPOTHETICAL TRADING RECORD CAN COMPLETELY ACCOUNT FOR THE IMPACT OF FINANCIAL RISK IN ACTUAL TRADING. FOR EXAMPLE, THE ABILITY TO WITHSTAND LOSSES OR TO ADHERE TO A PARTICULAR TRADING PROGRAM IN SPITE OF TRADING LOSSES ARE MATERIAL POINTS THAT CAN ADVERSELY AFFECT ACTUAL TRADING RESULTS. THERE ARE NUMEROUS OTHER FACTORS RELATED TO THE MARKETS IN GENERAL OR TO THE IMPLEMENTATION OF ANY SPECIFIC TRADING PROGRAM WHICH CANNOT BE FULLY ACCOUNTED FOR IN THE PREPARATION OF HYPOTHETICAL PERFORMANCE RESULTS, ALL OF WHICH CAN ADVERSELY AFFECT ACTUAL TRADING RESULTS. The hypothetical performance results contained herein represent the application of the quantitative models as currently in effect on the date first written above and there can be no assurance that the models will remain the same in the future or that an application of the current models in the future will produce similar results because the relevant market and economic conditions that prevailed during the hypothetical performance period will not necessarily recur. Discounting factors may be applied to reduce suspected anomalies. This backtest's return, for this period, may vary depending on the date it is run. Hypothetical performance results are presented for illustrative purposes only. In addition, our transaction cost assumptions utilized in backtests, where noted, are based on AQR Capital Management, LLC's, ("AQR")'s historical realized transaction costs and market data. Certain of the assumptions have been made for modeling purposes and are unlikely to be realized. No representation or warranty is made as to the reasonableness of the assumptions made or that all assumptions used in achieving the returns have been stated or fully considered. Changes in the assumptions may have a material impact on the hypothetical returns presented. Actual advisory fees for products offering this strategy may vary.

Systematic Core-Plus Strategy Backtest

Limitations of Backtested Performance: The returns presented reflect hypothetical performance an investor would have obtained had it invested in the manner shown and does not represent returns that any investor actually attained. The information presented is based upon the following hypothetical assumptions:

The Hypothetical Systematic Core-Plus Strategy model uses data from January 1997 onward. The strategy takes active risk relative to the Bloomberg Barclays U.S. Aggregate Index, by taking overweight (or long) positions in attractive government bond markets, corporate bond markets, and currencies and underweight (or short) positions in unattractive one. The Strategy intends to pursue its objective by providing exposure to four key investment themes: Value (cheap securities outperform expensive ones), Momentum (recent winners will outperform recent losers), Carry (higher yielding will outperform lower yielding), and Defensive (higher quality/lower risk will outperform lower quality/higher risk), across these sectors. Notably, it does not take active risk in overall portfolio duration, or sector allocation.

Hypothetical performance is gross of advisory fees and net of transaction costs. The transactions costs used in the model are based on AQR's proprietary estimates of transaction costs for each market traded, including market impact and commissions. Backtested returns for the strategy are discounted such that the information ratio is reduced to account for potential differences in backtested implementation of a strategy versus estimated real-world implementation, including differences in trade execution, constraints, and transaction costs over time. Without this discount, backtested returns would be greater. The backtested performance may be greater or less than the live performance of the strategy due to, among other things, differences in the number of the holdings in and composition of the strategy.

Past performance is not an indication of future performance.
AQR Capital Management, LLC
As of 11/13/2018