

## Manager profile

investigate

### Company overview

Founded in 1998, AQR Capital Management is an investment management firm employing a disciplined multi-asset, global research process. The firm's founding principals, Cliff Asness, John Liew, Bob Krail and David Kabiller (all formally at Goldman Sachs (GSAM)) previously managed both traditional (managed relative to a benchmark) and non-traditional (managed seeking absolute returns) mandates at Goldman Sachs. The principals formed AQR to build upon the success achieved at GSAM while enabling key professionals to devote a greater portion of their time to research and investment product development.

AQR is based in Greenwich, Connecticut and manages assets for some of the largest institutional investors from the United States, Europe, Asia and Australia.

### Investment style and philosophy

AQR's investment philosophy is based on the fundamental concepts of value and momentum. Value investing is simply buying securities that are cheap and selling those that are expensive. Momentum investing is simply buying securities that are improving and selling securities that are deteriorating.

AQR applies both concepts through the use of numerous proprietary indicators across many markets. AQR considers itself a fundamental investor who uses quantitative models to maintain a diversified portfolio that is long in cheap securities with good momentum and short in expensive securities with poor momentum.

AQR believes applying this basic valuation and momentum philosophy through the use of multiple proprietary indicators, putting significant effort into minimising transactions costs and incorporating disciplined risk-control will lead to attractive long-term risk-adjusted returns.

Value and momentum make a powerful combination. The key to this combination lies in the significant negative correlation between the two strategies. Value strategies tend to be long assets that have done poorly and short assets that have done well (over the long term). Momentum strategies tend to be long assets that have done well and short assets that have done poorly (over the short to medium term). The combination produces an investment that preserves the expected return of both strategies but has dramatically lower volatility.

### Investment process

AQR employs a quantitative and model driven investment process with teams conducting ongoing research on security selection indicators, portfolio construction, optimisation, trading techniques and technology. AQR understands the necessity of ongoing research, as quantitative strategies will have to be continually refreshed to be competitive.

AQR's process employs a diverse set of fundamental inputs and applies them in a disciplined and systematic process. The investment process aims to separate the stock and industry allocation decisions from the currency decisions with the majority of the risk allocation relating to stock selection. Stocks and industries are over/underweighted relative to the benchmark but do not take active country deviations. AQR uses separate regional stock selection models to tailor stock and industry selection considerations to the different global equity markets within the benchmark.

**Stock selection** – the quantitative process relies on proprietary stock selection models, which utilise a set of valuation, momentum, earnings quality, investor sentiment, sustainable growth and management signalling to generate views on stocks. Each stock is ranked on its raw investment signal relative to its industry's average signal. Stock selection views are designed to be industry neutral. Approximately 85% of the model is based on stock selection as AQR believes the investment signals perform significantly better when measured relatively rather than in isolation or across industries.

**Industry selection** – each industry is ranked relative to how its industry's average compares to other industries. The major themes include industry value, momentum and earnings growth, with momentum receiving the majority of the weighting as there's better comparability of momentum across industries. Approximately 15% of the model is based on industry/sector views, as results are not as strong as for industry relative stock selection.

**Currency selection** – doesn't impact stock selection as it's directly addressed through an active currency overlay strategy.

**Portfolio construction** – used together, stock and industry selection help the team arrive at an overall aggregate view – a combination of all underlying factors, with a weight assigned to each stock. These weights reflect a level of excess return potential and are used to derive an implied alpha forecast for each stock. The forecasts are then combined with trading costs and liquidity constraints to create the optimal portfolio.

Portfolio construction also considers the level of opportunity from each model and dynamically shifts the portfolio to the favoured models.

Models are well diversified across broad factors including value, momentum, quality, growth and sentiment, so although the portfolio isn't expected to show significant long-term style biases, it may display a variable bias to value at times. The typical portfolio can be highly diversified across 600-900 stocks, with value-add generated almost entirely from stock selection.

## Reason Advance selected AQR

AQR is a specialist quantitative manager who focuses on global equities and alternatives. It has a good management structure, headed by a large, stable and experienced investment team. Cliff Asness, Managing and Founding Principal, is a well-respected industry figure and we like the strong ownership structure and alignment with investors. The strong depth of resources enables emphasis to be placed on future research, model development and enhancement.

Contact Centre: 1800 819 935

Adviser Services: 1300 361 864

[advance.com.au](http://advance.com.au)

This information is of a general nature only and has been prepared without taking into account the objectives, financial situation or needs of any particular person. Before acting on the information, a person should consider its appropriateness having regard to these factors. The Advance Multi-Blend Funds (Funds) are issued by Advance Asset Management Limited ABN 98 002 538 329 AFSL No. 240902. Before deciding whether to acquire or to continue to hold an investment in a Fund, investors should obtain and consider the Product Disclosure Statement for the Fund, available from Advance at [www.advance.com.au](http://www.advance.com.au) or by calling 1800 819 935. Whilst every effort has been taken to ensure that the assumptions on which the outlooks given in this document are based are reasonable, the outlooks may be based on incorrect assumptions or may not take into account known or unknown risks and uncertainties. Past performance is not a reliable indicator of future performance. Information from third parties is believed to be reliable however it has not been independently verified. While the information in this document is given in good faith, no warranty is given that it is accurate, reliable, free from error or omission. Advance is a member of the Westpac Group. An investment in a Fund does not represent an investment in, deposit with or other liability of Westpac Banking Corporation or any other member of the Westpac Group. Subject to any terms implied by statute which cannot be excluded, no member of the Westpac Group nor its directors, employees and associates accept any responsibility for errors in, or omissions from the information.

**ADVANCE**  
INVESTIGATE

AD10455A-1209aj