



# AQR Global Equity Fund - Class N/I

## Fourth Quarter 2013 Commentary

January 2014

### Performance Summary

Total Returns as of Quarter-End 12/31/13

	4Q 2013	YTD	1 YR	Annualized		Since Inception (6/30/2006)
				3YR	5YR	
AQGNX	8.99%	27.67%	27.67%	12.10%	15.94%	4.83%
AQGIX	9.04%	28.06%	28.06%	12.44%	16.29%	5.16%
MSCI World Index	8.00%	26.68%	26.68%	11.49%	15.02%	5.30%
AQGNX Gross/Net Expense Ratio: 1.88%/1.26%				AQGIX Gross/Net Expense Ratio: 1.42%/0.96%		

*Performance data shown represents past performance and is not a guarantee of future results. Investment returns and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Call 1-866-290-2688 or visit [www.aqrfunds.com](http://www.aqrfunds.com) for current month-end performance.*

### Overview

It was another strong quarter for global equity markets, with the MSCI World Index returning 8.00% in the fourth quarter. The AQR Global Equity Fund Class I/N shares returned 9.04%/8.99% for the quarter, outperforming their benchmark index by 1.04%/0.99%.

Developed equity markets rallied in the fourth quarter, with almost every country in the MSCI World index showing positive returns in local currency terms. In the United States, equity markets rallied starting in mid-October on the back of improving data, in particular employment. Improvement in the labor market allowed the Fed to announce a reduction in asset purchases, also known as tapering, beginning in January. Economic conditions in Europe continued to improve at a moderate pace. Spain announced its first positive quarter of growth in 2 years, while Germany also showed improved economic growth. Outside of the eurozone, growth in the UK continued to be strong. The European Central Bank reacted to low inflation in Europe by easing monetary policy, which was also supportive of equity prices.

In contrast to improving growth in the U.S. and Europe, economic growth lagged expectations in Australia. The Reserve Bank of Australia placed partial blame for the slowdown on the recent strength of the Australian dollar, and was able to successfully talk the currency lower over the quarter.



Japan continued its year-long trend of a stronger equity market and a weaker currency driven primarily by easy monetary policy. During the fourth quarter, Bank of Japan governor Kuroda re-emphasized the bank's commitment to easy monetary policy, including a pledge to keep monetary stimulus in place until inflation stabilized around its 2% target.

## Performance Commentary

The **stock selection strategies** performed well in the fourth quarter of 2013. This was mainly driven by strong returns in the U.S. and Europe. Performance in other regions was either flat or slightly positive.

In the U.S., positive returns were driven by the strong performance of both our industry-relative valuation and momentum signals which is noteworthy given their general negative correlation to each other. Management signaling and stability signals partly detracted from returns over the period. In Europe, momentum signals within and across industries drove the majority of the outperformance in the fourth quarter, while stability and industry valuation detracted modestly from returns.

Sector positioning for the overall strategy contributed positively to the fund's performance this quarter. Gains from a net overweight position to information technology and a net underweight position to utilities contributed to the majority of the outperformance. Our industry-relative bets for the overall strategy outperformed this quarter as well, led by positive returns in consumer staples and industrials.

Tactically, we are at our long-term target weight to value in the U.S. In Europe, we are underweight value due to tighter than normal value spreads and in Japan we have a modest overweight to value.

The **country selection strategy** had flat performance in the fourth quarter. Both value and momentum signals were flat.

Our overweight position in Japan was the largest contributor to excess returns in the fourth quarter, as Japanese equities continued their year-long strong performance. Bank of Japan governor Kuroda re-emphasized the bank's commitment to easy monetary policy, including a pledge to keep monetary stimulus in place until inflation stabilized around its 2% target. Our overweight position in German equities also contributed positively. German equities rallied due to modestly improving economic growth and easier monetary policy from the European Central Bank.

Our underweight position in the U.S. and overweight position in Hong Kong were the largest detractors over the quarter. The U.S. equity market was among the top performers this quarter. Hong Kong equities finished the quarter with a positive return, but lagged the average developed equity market, which caused our overweight position to detract from performance.

Our largest overweight position continues to be Japan, due to supportive price momentum and improving economic fundamentals. We are also overweight equity markets in the U.K. and Hong Kong, with both markets attractively valued. We are underweight equity markets in United States, Canada and Switzerland, as all three markets appear expensive.

The **currency selection strategy** has flat performance in the fourth quarter. Momentum signals contributed positively, value signals had muted performance, and carry signals detracted.

The largest contributors in the fourth quarter were our underweight position in the Canadian dollar and our overweight position in the euro. The Canadian dollar fell over the quarter, in part due to a more dovish Bank of Canada, which removed its tightening bias and revised its economic growth and inflation projections downward. In contrast, the euro rallied despite a cut in interest rates by the European Central Bank, as strong growth allowed the currency to overcome the headwind of easier monetary policy.

The largest detractor from performance in the fourth quarter was our overweight position in the Japanese yen. As described above, the Bank of Japan reiterated its commitment to accommodative monetary policy,



which caused the yen to continue its year-long decline. Our underweight to the Swedish krona also detracted. The krona faced conflicting influences during the quarter. Better growth from its export partners was a positive for the currency, while easier monetary policy from the Riksbank (the central bank of Sweden) was a headwind. The net impact was that the krona outperformed the average developed currency over the quarter.

As of the end of the quarter, we are overweight the euro due to attractive valuations, supportive price momentum and improving fundamentals. We are also overweight the Japanese yen due to interest-rate-related signals, positive sentiment and attractive valuation. Our largest underweights are in the Canadian dollar and British pound. We are underweight the Canadian dollar on all themes, and are underweight the pound due to interest-rate-related signals and expensive valuation.



## Definitions

**Carry:** The difference between the yield earned from holding a financial instrument and the cost of financing. Positive carry means that the yield (in the form of interest, dividends, etc.) is greater than the financing cost; negative carry means that the financing cost exceeds the yield.

**Momentum:** An asset is deemed to have positive momentum if it has performed well in the past relative to other assets in the same universe.

**Valuation:** A measure of whether an asset or company is cheap or expensive compared to similar companies.

**MSCI World Index:** a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. One cannot invest directly in an index.

The Fund uses derivatives to manage its country and currency exposures. The use of derivatives 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. Foreign investing involves special risks such as currency fluctuations and political uncertainty. The Fund is not suitable for all investors.

An investment in any of the AQR Funds involves risk, including loss of principal. The value of the Funds' portfolio holdings may fluctuate in response to events specific to the companies in which the Fund invests, as well as economic, political or social events in the United States or abroad. Please refer to the prospectus for complete information regarding all risks associated with the Funds.

An investor considering the Funds should be able to tolerate potentially wide price fluctuations. The funds are subject to high portfolio turnover risk as a result of frequent trading, and thus, will incur a higher level of brokerage fees and commissions, and cause a higher level of tax liability to shareholders in the funds. The Funds may attempt to increase its income or total return through the use of securities lending, and they may be subject to the possibility of additional loss as a result of this investment technique.

A privately offered fund managed by the Adviser was reorganized into the Fund on December 31, 2009, the date the Fund commenced operations. This privately offered fund was organized in March 2006 and commenced operations in June 2006 and had an investment objective, investment policies and restrictions that were, in all material respects, the same as those of the Fund. However, the privately offered fund was not registered as an investment company under the 1940 Act. In addition, this privately offered fund was not subject to certain investment limitations; diversification requirements, liquidity requirements, and other restrictions imposed by the 1940 Act and the Code which, if applicable, might have adversely affected its performance. The Fund's performance for periods prior to the commencement of operations on or about December 31, 2009 is that of the privately offered fund.

**An investor should consider the investment objectives, risks, charges and expenses of the Fund carefully before investing. To obtain a prospectus containing this and other information, please call 1-866-290-2688 or download the file from [www.aqrfunds.com](http://www.aqrfunds.com). Read the prospectus carefully before you invest. There is no assurance the stated objective(s) will be met.**