

Third Quarter 2013 Commentary for AQR Multi-Strategy Alternative Fund

Total Returns as of Quarter-End 9/30/13

	Q3 2013	YTD	1 YR	Annualized		Since Inception (7/18/2011)
				3YR	5YR	
ASANX	-1.88%	0.31%	2.43%	NA	NA	-0.12%
ASAIX	-1.78%	0.61%	2.77%	NA	NA	-0.15%
ML 3-Month T-bill Index	0.02%	0.06%	0.10%	NA	NA	0.08%
ASANX Gross/Net Expense Ratio*: 3.66% / 3.99%				ASAIX Gross/Net Expense Ratio: 3.58% / 3.82%		

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 for current month-end performance.

The Fund seeks positive absolute returns by providing exposure to a broadly diversified portfolio of classic, relative-value alternative strategies that are liquid and designed to exhibit low-to-uncorrelated return patterns in relation to traditional markets. Our portfolio includes nine major strategies: Long/Short Equity, Equity Market Neutral, Dedicated Short Bias, Emerging Markets, Convertible Arbitrage, Event Driven, Global Macro, Managed Futures and Fixed-Income Relative Value. We believe that each of these categories offers positive long-term risk-adjusted returns, but each goes through good times and bad times. The key is that, historically, they go through ups and downs at different times, thus allowing the Fund to potentially benefit by diversifying across the nine strategies and generating more consistent long-term performance. Underlying the major strategies are approximately 60+ sub-strategies, each built from the bottom up by experienced teams at AQR.

Our portfolio construction approach is to be as diversified and balanced as possible, starting with equal-risk weighting as a baseline and then making small tactical tilts around the strategic risk allocation when we think strategies are conditionally attractive or unattractive. Because we are trading in these markets daily and because all of the strategies are managed in one portfolio, we can be disciplined about rebalancing to our strategic weights, stay nimble by taking advantage of tactical opportunities, and provide efficient exposure by netting positions and transactions costs.

Performance Summary

The Multi-Strategy Alternative Fund (“MSAF”) was -1.8% for the third quarter of 2013.

- In the quarter, MSAF had positive contributions from five of the nine main strategies and realized 4.6% annualized daily volatility and a 0.21 daily correlation to equities.
- Since inception on July 18, 2011, MSAF has returned +0.1%, with an annualized daily volatility of 4.9%, and a 0.20 daily correlation to equities.

Market and Hedge Fund Performance

“It’s like deja-vu all over again.” Yogi Berra is credited with having coined that phrase upon watching Mickey Mantle and Roger Maris hit back-to-back home runs, again. Neither Mantle nor Maris swung a bat in the major leagues past 1968 and the phrase seems more appropriate of markets today than it does of baseball’s golden era. Again, monetary policy expectations were a primary driver of markets in the past quarter. The Federal Reserve surprised markets in the second quarter by discussing the possibility of tapering asset purchases in September and then surprised the market this quarter by not doing so. Yields on U.S. ten-year Treasury notes, which started the quarter at 2.5%, rose nearly 50 basis points before settling back to 2.6% by the end of the quarter. Yields still remain about 1% higher than they were in early May. Again, tensions in the Middle East and the prospect of U.S. military action sent oil and gold prices higher until the situation was diffused, seemingly at the last minute. Again, European and Chinese economies, which had appeared to be slowing in the last quarter, showed improved growth prospects, impacting both equities and commodities. Again, the U.S. Congress created a crisis out of ideological differences over spending that threatened a government shutdown and looming default. Again, world equity markets experienced ups and downs with the end result being significantly higher prices.

In this version of the replay, stock markets rallied around the globe, as developed markets appreciated +8.2% and emerging markets appreciated +5.8% in U.S. dollars as represented by the MSCI World and the MSCI Emerging Markets indices. Ten-year government bonds appreciated +0.7% in the U.S., +0.7% in Germany and +1.8% in Japan. U.K. Gilts declined -0.6%. Credit also appreciated as the Barclays High Yield bond index increased +2.3%. The U.S. dollar was generally weak as the British pound (+6.3%), euro (+3.9%), Swiss franc (+4.4%) and Japanese yen (+1.4%) all appreciated against the U.S. currency. Commodities, as represented by the S&P GSCI index, rose +3.5%, with outperformance in oil (+6.0%), gold (+7.6%) and copper (+8.3%). The VIX, a reasonable proxy of risk aversion, started and ended the quarter at nearly the August 30th peak level of 17.0% but reached lows of 11.8% in early August.

Hedge fund indices experienced a positive quarter with gains in July and September overcoming August losses in both the Credit Suisse Hedge Fund Index¹ (“CS Index”), which was +1.6%, and the HFRI Fund Weighted Index (“HFRI”), which was +2.2%. These indices have had correlations to global equities, as represented by the MSCI World, of 0.8 and 0.9 in the past twenty-four months, respectively, based on monthly data and have betas of 0.33 and 0.22, respectively. The effect of this relationship with equity markets is quite evident when comparing beta-adjusted² figures for the CS Index (-0.3%) and the HFRI (-0.6%) with the non-adjusted figures cited above. The best performing sectors (non-adjusted) in each index were Long/Short Equity (CS Index) and Equity Hedge (HFRI), each having the highest betas among hedge fund sectors and capitalizing on strong equity markets. Equity strategy returns were +3.5% for the CS Index and +4.0% for the HFRI. Event Driven was the next best performing strategy in both indices, appreciating +2.9% in the CS Index and +2.8% in the HFRI. Equity Market Neutral, Fixed Income Arbitrage, Emerging Markets and Convertible Arbitrage all provided reasonable returns across both index providers. Only Dedicated Short Bias (-10.9%) and Managed Futures (-3.9%) were negative on the quarter in both the CS Index and the HFRI.

Long/Short Equity (Equity Hedge) and Event Driven were the two best performing strategies year-to-date as well. Within the CS Index, Long/Short Equity was +10.7% and Event Driven was +10.2%. Event Driven was heavily influenced by the Distressed sub-strategy, which gained +10.4%, while Risk Arbitrage was just +3.8%.

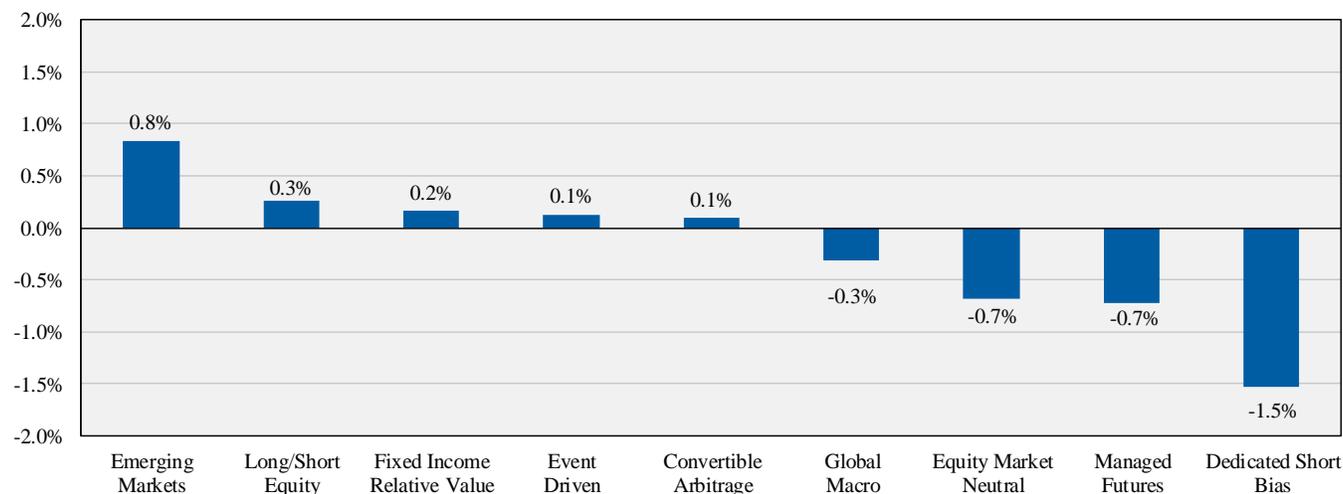
¹ Renamed from the Dow Jones Credit Suisse Hedge Fund Index

² Beta-adjustments are made using 24-month rolling betas to the MSCI World (US\$) index

MSAF Strategy Contributions – Third Quarter

Five of MSAF's nine strategies had positive results for the quarter but the remaining four were more impactful as a group. Stock selection strategies were the primary driver of losses during the quarter, with Dedicated Short Bias and Equity Market Neutral strategies sustaining losses. Each of the three arbitrage strategies produced modest gains but in aggregate contributed +0.4%. Macro strategies produced small losses as gains in Emerging Markets were offset by losses in Managed Futures and Global Macro.

Attribution of Third Quarter Returns to Multi-Strategy Alternative Fund (as of September 30, 2013)



Performance shown is for Class I Shares. Past performance does not guarantee future results.

Largest Contributors and Detractors – Third Quarter

- Emerging Markets (+0.8%):** MSAF's Emerging Markets strategy was positive in each one of the three months during the quarter and earned profits in both stock-selection and global macro sub-strategies. Roughly half of the strategy's gains were from the Relative Value Emerging Currency sub-strategy that benefited from momentum and value themes. Carry themes were unprofitable. Most of the currency gains came from long positions in the Polish zloty (+6.6%), which profited from stronger than expected local and regional economic growth and the Korean won (+6.2%), which benefited from a strong current account compared to concerns to those of other emerging currencies. Both of these currencies exhibited strong performance relative to the average emerging currency. These two currencies provided a combined contribution of +0.4%. In other macro-oriented sub-strategies, both Relative Value Emerging Equities and Emerging Equity Timing strategies earned small gains as a result of value themes. The relative value strategy benefited from a short position in India's NIFTY index (-1.7%), which significantly underperformed the +7.9% cross-sectional average because of significant current account deterioration and resulting confidence in the Indian rupee. The timing strategy was positioned long for most of the quarter and benefited from strong emerging equity performance. Emerging stock-selection gains were based primarily on positive performance of value and industry-selection themes.
- Long Short Equity (+0.3%):** All of Long Short Equity's quarterly return came as a result of market direction. Equity direction comes as a result of the dynamic net exposure sub-strategy, which is constrained to target a relatively small level of beta, achieved through momentum-

oriented exposure to the S&P 500. In the past quarter, the S&P 500 appreciated +5.2% causing even a small beta exposure to have a material contribution to the strategy's returns. The growth-oriented, stock-selection sub-strategies, which are the bulk of the risk in the Long/Short Equity strategy, provided a small loss over the period. Gains from growth themes, applied to industry-selection, size themes and accounting-oriented quality themes were offset by losses from value themes applied to both stock-selection and industry-selection. Regionally, losses of -0.1% each in Europe and Japan outweighed combined gains of +0.1% in the U.S. and U.K.

- **Dedicated Short Bias (-1.5%):** Dedicated Short Bias was unprofitable in each of the three months in the past quarter and has been negative in six of the past seven months. While equity markets have been strong during these periods and short direction has hurt the strategy, direction has not been the primary cause of losses. In fact, less than 20% of strategy losses came from the short bias of the strategy in the third quarter. The greater culprit has been poor performance of the strategy's sentiment-oriented, market-neutral stock-selection portfolios. Accounting themes, management signaling themes and high-risk stock themes all produced losses but it was the investor sentiment themes, with higher risk weighting, that produced the largest losses. These losses were concentrated in the European and U.S. portfolios, where investor sentiment themes were the primary drivers. The Japanese portfolio was the only profitable regional portfolio, being the only region where investor sentiment themes experienced gains.
- **Managed Futures (-0.7%):** Managed Futures losses were concentrated in September, when the strategy lost -0.7%. Widespread trend reversals, a result of changing macroeconomic and geopolitical events as discussed above, caused losses in commodities, currencies and fixed income in both September and the quarter overall. Commodities, which had been a source of profits for much of the year, were the primary detractor in the third quarter, with performance of -0.5%. Both long-term and short-term trend-following detracted in commodities. Precious and base metals had been in strong decline this year due, in part, to declining inflation expectations and slower Chinese growth expectations. Trends in these metals reversed in the third quarter as the Syrian conflict and renewed possibility of a U.S. default spurred a rise in prices for precious metals. At the same time, Chinese output levels exceeded expectations and pushed up prices of base metals. These reversals had a -0.2% impact on the Fund. Grain exposures contributed just -3 basis points in total loss but contained a short corn position that contributed +0.1% and a long soybean position that detracted -0.2%. These were the best-performing and worst-performing commodity positions. Within developed country currency trading, short-term trend-following was the cause of the -0.3% loss. The Fund incurred losses of -0.2% on a short Japanese yen position that declined in size until mid-way through the quarter and then increased again in the second half, as the currency appreciated and then depreciated for little net movement. A similar pattern occurred with the Norwegian krone and Swedish krona, creating combined losses of -0.2%, except in the case of the Swedish currency, the Fund actually switched direction toward the end of the quarter. Interest rate exposure, which lost -0.1%, was negatively affected by trend reversals as positions in Canada, Europe and the U.S. switched from short to long during the period. Equity indices, which maintained long positions in nearly every instrument during a period of strong market appreciation, were the only asset class to provide trend-following gains, contributing +0.3%.
- **Equity Market Neutral (-0.7%):** Until August, the Equity Market Neutral strategy was up six of the first seven months of the year and had contributed +4.1% on the back of strong value performance, particularly in the U.S. portfolio. August (-1.3%) was the first month of meaningful adversity. The August decline was not just a reversal of the previous gains from value themes but rather an adverse environment that was more broad-based, affecting all of the

themes that the strategy trades. September's return of +0.4% helped to moderate the quarter's loss as gains from growth, accounting-oriented quality and defensive themes overcame value losses that were concentrated in Japan. For the full quarter, value and defensive themes were responsible for losses while the accounting-oriented quality themes contributed positively across all regions. The Japanese portfolio was the worst-performing regional portfolio, having lost -0.6%, and the U.S. portfolio also added -0.1% to losses. The U.K portfolio generated profits of +0.1% and the European portfolio was flat.

Tactical Positioning

Aggregate tactical risk allocation for the Fund increased by about 3 percentage points from the previous quarter to a level of 86% of strategic risk. This quarterly change, while not large, takes aggregate tactical risk positioning off of levels that had been near historical lows. As is always the case, total tactical positioning is a function of individual strategies rather than a singular aggregate view and in this case the increase came as a result of increased tactical allocation to the Event Driven strategy. As of September 30th, there still were six strategies underweight (although Managed Futures was just 3 percentage points underweight) and only one strategy overweight. Our tactical range is typically between 80% and 120% barring any strong views on risk/reward that may cause us to position below those levels. In the previous quarter there were three strategies that were meaningfully less than 80% of strategic weight. In the current quarter, the tactical weight to Event Driven increased from 60% to 80%, leaving Global Macro and Convertible Arbitrage as the only strategies that are more meaningfully underweight.

Tactical positioning of the Event Driven strategy was raised to 80% of strategic after a review of the underlying opportunity set. Convertible Arbitrage, which has seen little change in the cheapness of its underlying universe of securities, remains at a 70% risk weight. The tactical risk weight of Fixed Income Relative Value was reduced by -5% over the quarter.

There was no tactical change within the stock-selection grouping as Long/Short Equity remains the sole overweight strategy at 115% of strategic risk, and both Equity Market Neutral and Dedicated Short Bias remain neutrally weighted at 100%.

Macro strategy allocation remained roughly unchanged as modest increases in Managed Futures and Global Macro tactical risk weights were offset by a nearly 14 percentage point reduction in Emerging Markets. The increase in Global Macro was due to greater alignment of carry, value, fundamental momentum and price momentum themes and the increase in Managed Futures was due to greater alignment of long-term and short-term trends. The Emerging Markets strategy consists of a number of global macro strategies as well as stock-selection strategies, and the decrease in tactical weight was due to a decrease in alignment of the global macro themes.

Conclusion

The AQR Multi-Strategy Alternative Fund was down -1.8%, net of fees, in the third quarter of 2013. Losses in Dedicated Short Bias, Managed Futures and Equity Market Neutral overwhelmed gains in Emerging Markets to produce the quarter's end-result. Overall, stock-selection and macro strategies incurred losses and arbitrage strategies produced modest gains. The third-quarter losses came during a period of strong equity market returns that buoyed general hedge fund performance as well.

We believe the diversification attributes of the Fund have been, and will continue to be, quite valuable relative to the increasingly beta-laden portfolios held by many investors. We remain confident in the ability of the Fund to meet its long-term objectives and that investors are well served by a Fund that focuses on lowly correlated, relative value strategies.

As always, we appreciate the trust shown by our clients and continue our research efforts to enhance MSAF.

Definitions:

Alpha: A measure of performance on a risk-adjusted basis. Alpha takes the volatility of a mutual fund and compares its risk-adjusted performance to a benchmark index. The excess return of the fund relative to the return of the benchmark index is a fund's alpha.

Arbitrage: The simultaneous purchase and sale of an asset in order to profit from a difference in price

Basis Point: A unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument.

Beta: The portfolio manager's estimation of how sensitive the portfolio's returns are to changes in the benchmark. For example, with a beta estimate of 0.5, then if the S&P500 were to fall 1 percent, it is estimated that the portfolio would fall approximately 0.5 percent. As the strategy invests in many markets other than the S&P500, this estimate is meant to be a rough guide, as actual results can and will differ materially from the performance estimated by the beta assumption.

Carry: The return earned on an asset or derivative if spot price remain unchanged.

Convertible Bond: A bond that can be converted into a predetermined amount of the company's equity at certain time's during its life, usually at the discretion of the bond holder.

Correlation: A statistical measure of how two securities move in relation to each other. Correlation is computed into what is known as the correlation coefficient, which ranges between -1 and +1. Perfect positive correlation (a correlation coefficient of +1) implies that as one security moves, either up or down, the other security will move in the same direction. Alternatively, perfect negative correlation means that if one security moves in either direction the security that is perfectly negatively correlated will move in the opposite direction. If the correlation is 0, the movements of the securities are said to have no correlation; they are completely random.

Dow Jones Credit Suisse Hedge Fund Index: An asset weighted index that includes only funds, as opposed to separate accounts, that are in the Credit Suisse Hedge Fund database. This database is comprised of approximately 8,000 funds with a minimum size of \$50 million assets under management. The index is calculated and rebalanced monthly.

HFRI Fund Weighted Composite Index: A global, equally weighted index of over 2,000 single-manager funds that report to HFR Database.

MSCI Emerging Markets Index: A free-float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developing markets.

MSCI U.S. Index: A free-float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the United States.

MSCI World Index: A free-float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets.

NIFTY Index: The National Stock Exchange of India's benchmark index for the Indian equity market.

S&P 500: An index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

S&P GSCI Index: Index used to measure the general price movements and inflation in the world economy. The index is comprised of the principal physical commodities that are the subject of active, liquid futures markets.

Uncorrelated: When there is no similarity in the return pattern of two securities.

U.K. Gilts: Bonds that are issued by the British government. Gilts are the U.K. equivalent to U.S. Treasury securities.

U.S. Treasury Bills: A short-term debt obligation backed by the U.S. government with a maturity of less than one year.

VIX: A ticker symbol for the Chicago Board Options Exchange Market Volatility Index, a popular measure of the implied volatility of S&P 500 Index options.

Volatility: A statistical measure of the variation in returns for a given security or index.

*As reported in the most recent Prospectus. The Adviser has contractually agreed until at least April 30, 2013 to waive its management fee and/or reimburse expenses of the Fund to the extent necessary to maintain the total annual fund operating expenses at the stated levels, exclusive of certain expenses such as acquired fund fees and extraordinary expenses. Investment minimums are waived to fee-based advisors and certain other investors. See the Prospectus for additional details.

The Fund does not invest directly in hedge funds, but pursues strategies similar to those traditionally employed by hedge funds. Emerging market and foreign investing involves special risks such as currency fluctuations, political uncertainty, differences in generally accepted accounting principles, increased volatility and lower trading volume. The use of derivatives, forward and futures contracts, and commodities 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. This Fund enters into a short sale by selling a security it has borrowed. If the market price of a security increases after the Fund borrows the security, the Fund will suffer a potentially unlimited loss when it replaces the borrowed security at the higher price. Short sales also involve transaction and other costs that will reduce potential Fund gains and increase potential Fund losses. When investing in bonds, yield and share price will vary with changes in interest rates and market conditions. Investors should note that if interest rates rise significantly from current levels, bond total returns will decline and may even turn negative in the short term. There is also a chance that some of the Fund's holdings may have their credit rating downgraded or may default. Actual or realized volatility can and will differ from the forecasted or target volatility described above.

This Fund is a nondiversified fund. Because the fund may invest in securities of smaller numbers of issuers, the Fund may be more exposed to the risks associated with and developments affecting an individual issuer than a fund that invests more widely, which may, therefore, have a greater impact on the Fund's Performance. This Fund is not suitable for all investors. An investor considering the Fund should be able to tolerate potentially wide price fluctuations. The Fund may attempt to increase its income or total return through the use of securities lending, and may be subject to the possibility of additional loss as a result of this investment technique.

As of today, the most current holdings are as of 9/30/13. For the top ten holdings for the AQR Multi-Strategy Alternative Fund and a complete list of all AQR Funds holdings please visit:

http://www.aqrfunds.com/Reference_Materials/Prospectus_and_Fund_Information/Content/default.fs

Holdings are subject to change. Past performance does not guarantee future results.

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