AQR Risk Parity Fund

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Fourth Quarter 2013 Commentary

January 2014

Performance Summary

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

				Annualized		
	4Q 2013	YTD	1 YR	3YR	5YR	Since Inception (9/29/2010)
AQRNX	2.54%	-0.23%	-0.23%	6.14%		6.85%
AQRIX	2.62%	0.12%	0.12%	6.42%		7.14%
60/40 Portfolio	6.16%	17.57%	17.57%	11.27%		12.21%
AQRNX Gross/Net Expense Ratio*: 1.48% / 1.26%				AQRIX Gross/Net Expense Ratio: 1.32% / 1.29%		

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.

60/40 Portfolio is a monthly rebalanced portfolio of 60% S&P 500 equity index, 40% BarCap U.S. Aggregate Bond Index.

- Returns for two of the four risk categories in the Fund were positive for the quarter, with Equities contributing +2.70% and Credit contributing +1.63%; Nominal Interest Rates subtracted -0.98% and Inflation-Sensitive assets subtracted -0.73%.
- Tactical tilts had a strong quarter (+1.04% contribution overall) with positive contributions across nearly all asset classes and tactical themes. Asset-class timing and trend-following tilts provided strong gains led by bullish equity positions and bearish nominal and inflation-linked bonds positions.
- Realized Fund volatility for the quarter came in below our target of 10% annualized, averaging approximately 7.5% annualized (based on three-day overlapping returns). The volatility of the 60/40 benchmark also was low over the quarter: around 6% annualized, less than its 10% long-term average.
- The portfolio's strategic exposures are reviewed daily and adjusted as necessary to keep the overall portfolio risk level and risk balance across asset classes fairly steady. Market risk was generally lower, and Fund exposures increased from the end of the third quarter (3Q) to the end of the fourth quarter (4Q).

Various tactical tilt moves over the quarter also affected exposures, with more bearish views on fixed income, commodities, and inflation-linked assets lessening the increase in exposures.

Fund Overview

The Fund pursues a Risk Parity strategy combined with a tactical asset-allocation overlay. The Fund invests in developed- and emerging-market equities, global nominal and inflation-protected government bonds, currencies, global credit spreads and commodities in an attempt to build a diversified portfolio where all asset classes matter, but no one asset class matters too much. Risk parity investing involves allocating capital more equally by risk, aiming to have each asset class contribute roughly the same amount of risk to the overall portfolio. This means that instruments that have lower risk will generally be allocated more capital than instruments that are deemed more risky. As markets move through different risk regimes, the portfolio is dynamically adjusted to help keep its overall risk level and balance of risks across asset classes fairly steady through time. We believe this leads to more consistent results, reduces tail risk and enables the investor to remain invested through more difficult market environments.

Upon that risk parity framework, we overlay over- and underweights on certain assets based on AQR's proprietary macroeconomic and technical views. The goal is to build a portfolio that in the long run delivers higher returns at a risk level similar to that of traditional portfolios by combining a better asset allocation with tactical tilts.

The Fund is generally long all of the markets in which it invests. The investment process leads to an average beta to equity markets of about 0.4, although the portfolio will typically have lower beta in high-volatility environments and a higher beta in low-volatility environments. Our tactical over- and underweight tilts use forecasting models employed in our global macro hedge funds and include signals based on momentum, valuation, carry and other important economic variables. To take advantage of opportunities in various markets, we implement tactical views in a risk-controlled manner across most of the assets in the portfolio.

The annualized target volatility for the portfolio averages 10%. This varies modestly over time, increasing a bit when we are generally bullish across asset classes and decreasing when we are generally less optimistic. While we believe our tactical views can contribute meaningfully to portfolio returns over time, we expect to add value more consistently through diversification and risk management than through tactical over- and underweights. For this reason, we design the portfolio to emphasize diversification first and our views second.

Portfolio Attribution: Equities

U.K. 2013 Market Commentary

- Developed equity markets capped a strong 2013 with a fourth-quarter rally
- U.S. equities rose on improving economic performance, in particular better than expected employment data
    - U.S. equities finished the year on their highs, despite the Federal Reserve's December announcement of a cut-back in asset purchases

- Equity markets in Europe rose, spurred on by a surprise rate cut by the European Central Bank and strong growth out of the United Kingdom
- Japanese equity markets continued their year-long rally, ending the year as the best performing developed equity market in local currency terms
- Emerging markets, in an otherwise weak year, were mostly up in the quarter
  - Increased confidence in the central bank and a stabilizing rupee allowed Indian equities to rally strongly
  - Brazilian equities underperformed, as slower than expected growth and tightening monetary policy intended to fight high inflation, acted as headwinds

Tactical Tilts

- We were overweight equities throughout the quarter (with the exception of South Korea and India) providing a positive contribution to returns in 4Q. Trend-following signals continued to remain positive over the quarter, as the closing months rounded out a very strong year for equities, and remained in agreement with our bullish asset-class timing position. Relative value contributions were flat for the quarter. Within equities, we were overweight EuroStoxx based on strong valuation scores across the board and Japan based on positive price momentum, a weaker Yen that favors exporters, and positive revisions in earnings forecasts. In contrast, we were underweight Canadian equities which looked expensive.

Portfolio Attribution: Nominal Interest Rates

U.K. 2013 Market Commentary

- U.S., U.K. and German 10-year government bonds sold off in the fourth quarter
  - Economic data continued to firm across the developed world, which led to speculation of (and the eventual decision for) withdrawal of some monetary stimulus in the U.S.
- U.S. Treasuries and U.K. Gilts saw especially pronounced sell-offs
  - In the U.S., economic conditions continue to improve, particularly in labor markets, and markets priced in the perceived impact of asset purchase tapering that the Fed announced in December
  - Despite dovish commentary from the Bank of England, U.K. gilts sold off as economic data continued to point towards a sustained recovery, driven in large part by improving housing markets
- While German bunds also sold off, losses were considerably smaller than in either the U.K. or U.S.
  - Headline inflation in the Eurozone slipped below one percent during 4Q and led the ECB to cut its policy rate by 25 basis points at the beginning of November
- Japanese Government Bonds (JGBs) continued to outperform other G4 markets, coming in flat over the quarter, as monetary policy remained unambiguously accommodative

Tactical Tilts

- Over the quarter, our tactical positions contributed positively driven primarily by our bearish asset class timing positions while relative value and trend-following positions subtracted marginally. We remained meaningfully underweight nominal bonds and increased our underweight over the quarter as positive trend following views weakened and bearish asset class timing views strengthened on deteriorating price momentum. On a relative-value basis, we were overweight U.S. Treasuries driven by a steep yield curve

and high real yields. We particularly disliked Japanese government bonds due to a flatter yield curve and lower real bond yields.

Portfolio Attribution: Inflation-Sensitive

U.K. 2013 Market Commentary

- Commodities declined over the quarter, driven largely by precious metals
  - Speculation of Fed tapering, followed by the definitive announcement of tapering in December, hurt precious metals
- Grains, coffee, and sugar all fell, weighed down by continuing strong crop forecasts
- Base metals were generally flat to slight positive, driven by improving global growth
  - However, aluminum fell, weighted down by bearish production forecasts and increasing stockpiles
- Within energies, natural gas outperformed, appreciating in conjunction with declining stockpiles and forecasts for extremely cold weather
  - Oil products appreciated on average, fueled by improved U.S. economic growth, but West Texas Intermediate (WTI) crude declined, likely associated with high U.S. production and rising inventories
- Global inflation- linked bonds suffered during the fourth quarter, in particular underperforming at the end of the quarter following a positive start
  - U.S. Treasury Inflation-Protected Securities (TIPS) were the worst performers, particularly at shorter maturities
  - Rising real yields were driven by a combination of better economic data and the hawkish announcement of tapering of monetary policy in early December

Tactical Tilts

- Active tilts among commodities contributed positively to returns in 4Q. The outperformance was driven by our large underweight of precious metals, particularly gold, as precious metals continued to underperform through the end of the year. Overall, we entered 2014 slightly underweight commodities.
- Active tilts on our inflation protected securities also contributed positively to returns. We maintained our large underweight positions and inflation-linked bonds underperformed. Based on poor price and fundamental momentum in conjunction with continued poor valuations, we have maintained these underweight positions into 2014.

Portfolio Attribution: Credit

U.K. 2013 Market Commentary

- Corporate credit rallied during the fourth quarter, closing out a strong year
  - CDX IG and HY index spreads ended the year at their tightest levels since the summer of 2007
  - Primary markets remained active, with both IG and HY new issuance setting record highs
- Emerging credit return was positive for the quarter, as CDX EM spreads tightened modestly, but spreads widened more than 60bps on the year
- Emerging currencies underperformed their developed counterparts, as losses in the second half of the quarter offset a rally in October

- Within emerging currencies, the Turkish lira suffered amid political tensions over a corruption investigation into the government; the Brazilian real and South African rand also had poor performance
- Performance was particularly weak against the euro, which strengthened following general improvements in European economic data and sentiment

Tactical Tilts

- Returns to our tactical credit positions were close to flat over the quarter. Positive contributions from our underweight of emerging-market currencies were offset by losses from our underweight in high-yield credit. Going into 2014, we have increased underweight emerging currencies positions as trend-following views weakened. In high yield credit, we remain slightly underweight but have reduced this position based on strong equity and credit price momentum.

Definitions

Barclays Aggregate: A broad-based index used to represent investment grade bonds being traded in the United States.

Basis Point: A unit equal to one hundredth of a percentage point.

Beta: The portfolio manager's estimation of how sensitive the portfolios returns are to changes in the S&P500 Index. For example, with a beta estimate of 0.5, then if the S&P 500 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.

EuroStoxx: A market capitalization-weighted stock index of 50 large, blue-chip European companies operating within Eurozone nations.

G4: Comprised of Brazil, Germany, India and Japan; four countries that support each other's bids for permanent seats on the United Nations Security Council.

Inflation Sensitive: Refers to asset classes, such as commodities and inflation-linked bonds, whose values are particularly sensitive to changes in the prices of goods and services.

Nominal Interest Rates: The interest rate before taking inflation into account. The nominal interest rate is the rate quoted in loan and deposit agreements.

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.

Tail Risk: The risk of larger or more-frequent losses than would be expected if returns to an asset or portfolio followed a normal distribution.

Gilts: Bonds issued by the British Government and are generally considered low risk.

Valuation: Process of determining the current worth of an asset.

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.

This Fund is not suitable for all investors. Foreign investing involves special risks such as currency fluctuations and political uncertainty. 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.

As of today, the most current holdings are as of 12/31/13. For the top ten holdings for the AQR Risk Parity 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

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