



## Article 10 (SFDR)

# Website disclosure for an Article 8 fund

**AQR Adaptive Equity Market Neutral UCITS Fund (the “Fund”)**



**Product name: AQR Adaptive Equity Market Neutral UCITS Fund**  
**Legal entity identifier: 254900F54V3XEMPMTT86**

Does this financial product have a sustainable investment objective?

<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
<input type="checkbox"/> It will make a minimum of <b>sustainable investments with an environmental objective: __%</b> <input type="checkbox"/> in economic activities that qualify as environmentally sustainable under the EU Taxonomy  <input type="checkbox"/> in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy  <input type="checkbox"/> It will make a minimum of <b>sustainable investments with a social objective: __%</b>	<input type="checkbox"/> It <b>promotes Environmental/Social (E/S) characteristics</b> and while it does not have as its objective a sustainable investment, it had a proportion of __% of sustainable investments <input type="checkbox"/> with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy  <input type="checkbox"/> with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy  <input type="checkbox"/> with a social objective  <input checked="" type="checkbox"/> It promotes E/S characteristics, but <b>will not make any sustainable investments</b>



## A. Summary

The Fund has been classified as an Article 8 fund under Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (“**SFDR**”). Terms used but not defined herein shall have the respective meanings given to them in the prospectus of the Fund.

### No sustainable investment objective

This financial product promotes environmental or social characteristics, but does not have as its objective a sustainable investment.

### Environmental or social characteristics of the product

Through its stock selection strategy, the Fund promotes environmental or social characteristics by utilising *inter alia* negative screens, exclusions, positive tilts and managing carbon emissions.

### Investment strategy

The Investment Manager, AQR Capital Management, LLC (“**AQR**”) offers dedicated environmental, social and governance (“**ESG**”) solutions including ESG investing strategies that focus on broad ESG implications (incorporating negative screens and positive tilts), low-carbon portfolios, or portfolios customized for other client-specific ESG priorities.

The Fund implements the following ESG characteristics and indicators into its investment policy. In this context the Fund’s objective would in particular be to better manage risk, generate sustainable, long-term returns and promote environmental or social characteristics. For further details investors should refer to the Fund’s prospectus.



Exclusions					ESG Characteristics	Good Governance	
Static screen: excluding tobacco	Static screen: excluding controversial weapons	Static screen: excluding fossil-fuels related stock	Very Severe Ongoing Controversies	Managing carbon emissions footprint	Active tilt towards securities with superior ESG characteristics	Good governance signals	Excluding issuers with inferior governance
✓	✓	✓	✓	✓	✓	✓	

**Proportion of investments**

The Fund plans to use 70% of its investments to attain the environmental or social characteristics promoted, while the remaining investments of the Fund which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments are planned to be 30%.

**Monitoring of environmental or social characteristics**

A number of sustainability indicators are coded directly into the portfolio optimization process. Adherence to the ESG characteristics and indicators is monitored on a regular basis as part of the investment process.

**Methodologies**

A separate methodology is associated with each of the sustainability indicators, which facilitates codification of the indicators into the portfolio construction process. Reporting is provided to clients consistent with the methodologies, and the portfolio management team is able to monitor the same data.

**Data sources and processing**

The Investment Manager makes use of a variety of data sources. Specific to ESG-related data, this Fund’s portfolio construction process deploys a combination of proprietary models and a variety of third-party data sources in its portfolio construction process, such as raw data which is processed into proprietary ESG investment signals; MSCI ESG ratings data; and carbon-related data.

**Limitations to methodologies and data**

Data for ESG can face comparatively short time periods and sparse or inconsistent coverage. In addition, there is an ongoing due diligence of the 3rd party data solutions utilized, and proactive due diligence of new data solutions. Such due diligence involves an economic analysis to help validate whether the data actually captures the dimensions of ESG that it is designed to capture.

**Due diligence**

Third-party and internal ESG data monitors assets in our investment universe, and any changes with such data are dynamically reflected in our models’ views. AQR also utilizes an ESG company monitor that identifies problematic exposures. AQR also hosts several exclusion lists, and portfolios are continuously monitored to ensure compliance with the precise exclusion criteria.

**Engagement policies**

AQR undertakes direct engagement with companies based on ESG concerns, and to improve companies’ environmental-related data disclosures. AQR’s Stewardship Committee is responsible



for monitoring and tracking its engagement activities. Each engagement has a defined objective, and failure to attain this objective over a given time horizon can trigger our escalation process.

**Designated reference benchmark**

No reference benchmark has been designated for the purpose of attaining these characteristics promoted by the financial product.



**B. No sustainable investment objective**

This financial product promotes environmental or social characteristics, but does not have as its objective a sustainable investment.



**C. Environmental or social characteristics of the financial product**

**What are the environmental or social characteristics promoted by this financial product?**

Through its stock selection strategy, the Fund promotes the environmental or social characteristics of having (i) carbon exposure on the long leg equal to or lower than that of the Fund's short leg, (ii) the Fund's long leg's average ESG score higher than that of the Fund's short leg; and (iii) the application of sectoral exclusions.

The promotion of environmental or social characteristics will be made by utilizing: (i) principles-based exclusion framework, and (ii) positive tilts, as well as (iii) managing carbon emissions (as described below). For item (i) unless otherwise prohibited by regulation or as set out further below, exclusions will only apply to the long side of the portfolio, and items (ii) and (iii) are measured by comparing the long leg to the short leg of the portfolio.

The Fund will also invest in issuers which follow good governance practices, as further described below.

No reference benchmark has been designated for the purpose of attaining the promoted environmental and social characteristics.



**D. Investment strategy**

**What investment strategy does this financial product follow and how is the strategy implemented in the investment process on a continuous basis?**

With respect to the stock selection portion of the portfolio, at the time of rebalance, the Investment Manager will integrate the following characteristics into the Fund's ESG implementation within its investment strategy.



The Investment Manager will not purchase long positions in norms violators, fossil-fuels, tobacco, cannabis, alcohol, pornography, gambling, military equipment, controversial and nuclear weapons related securities, as well as any company which appears as excluded on the Norges Bank Investment Management exclusion list (“NBIM List”).

In addition, the Investment Manager will explicitly manage the portfolio’s carbon intensity, which is measured for the securities the Investment Manager holds on the long side of the portfolio (treating long positions as a standalone portfolio) and is managed to be equal to or lower than the equivalent measure computed for the Fund's short portfolio.

In addition to good governance signals and the exclusions prerequisites, the Investment Manager’s stock selection process will actively tilt toward securities with superior ESG characteristics. The portfolio weighted ESG scores for the securities held on the long side of the portfolio (treating long positions as a standalone portfolio) is managed so as to exceed the equivalent measure computed for the Fund's short portfolio.

With respect to the stock selection portion of the portfolio, the positive tilt towards securities with superior ESG characteristics will apply to some of the derivative instruments in which the Fund invests. The characteristics set out above apply to all equities held directly (e.g., cash equities) and indirectly (e.g., single-name equity swaps) in the portfolio and, where applicable, is applied on a look-through basis to the underlying issuer. For the avoidance of doubt, this does not apply to investments that do not provide exposure to individual issuers.

ESG characteristics shall be determined by third-party ESG ratings data with the aim of identifying the extent to which each company is exposed to, and how well it manages, a range of Environmental, Social, and Governance factors.

ESG factors taken into account with respect to this approach include amongst others:

- **Environmental:** gas emissions, resource depletion, waste and pollution, deforestation, carbon footprint;
- **Social:** working conditions, relation to the local communities, health and safety, employee relations, diversity considerations;
- **Governance:** executive pay, bribery and corruption, political lobbying and donations, tax strategy.

The ESG characteristics are generated using a combination of the Investment Manager’s proprietary models, as well as third party models and data. Investors should note that assessment criteria may change over time or vary depending on the sector or industry in which the relevant issuer operates.

Note that ESG-related data received from third parties may be incomplete, inaccurate or unavailable from time to time. As a result, there is a risk that the Investment Manager may incorrectly assess a security or issuer, resulting in the incorrect direct or indirect inclusion or exclusion of a security in the portfolio of a Fund. Additionally, securities or issuers without ESG-related data will be included in the portfolio of the Fund.

Where new ESG ratings data becomes available after the acquisition of a security, and in the event that it leads to a reassessment of the inclusion of a security in the Fund’s portfolio, the Investment Manager will not make any further purchases to increase its long position in such issuer or security and shall dispose of such security within a reasonable period of time under normal market conditions and portfolio management considerations.



Applying ESG criteria to the investment process may lead the Investment Manager to invest in or exclude securities for non-financial reasons, irrespective of market opportunities in order to achieve the ESG characteristics of the Fund following the approach described above.

In addition to the preliminary assessment of investment opportunities against the ESG characteristics described herein, the Investment Manager will monitor the invested positions on an ongoing basis. Should an invested security not fulfil or meet the ESG criteria, the Investment Manager will take appropriate actions deemed necessary (including but not limited to portfolio rebalancing), within a reasonable timeframe and in such manner that is line with the interest of the Fund.

**What are the binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by this financial product?**

For the avoidance of doubt, all binding elements and restrictions are considered, applied and measured at the time of rebalance.

The following elements are only binding to the stock selection portion of the portfolio. For the avoidance of doubt, all binding elements and restrictions are considered, applied and measured at the time of rebalance.

The Investment Manager will not purchase long positions in norms violators, fossil-fuels, tobacco, cannabis, alcohol, pornography, gambling, military equipment, controversial and nuclear weapons related securities, as well as any company which appears as excluded on the Norges Bank Investment Management exclusion list ("NBIM List") and may, at its discretion, impose additional normative restrictions. As applicable, positions may be shorted, except for controversial weapons and nuclear weapons related companies, at the Investment Manager's discretion.

- A company is deemed to be a norms violator if it is involved in verified violations of international norms for the environment, human rights, labour rights and anti-corruption.
- A company is deemed to be a fossil-fuel related company if it derives more than 5% revenue from any of exploration, production, or distribution of fossil fuels, if it derives more than 50% revenue from services related to fossil fuels or oil sands, or if it is involved in any production or exploration of oil sands.
- A company is deemed to be a tobacco-related company if it is involved in the production of tobacco, derives more than 5% revenue from the distribution of tobacco, or derives more than 50% revenue from services related to tobacco.
- A company is deemed to be a cannabis-related company if it is involved in the production, distribution, or experimentation of cannabis and derives more than 5% revenue from involvement in cannabis, or if it is involved in services related to cannabis and derives more than 50% revenue from involvement in cannabis.
- A company is deemed to be an alcohol-related company if it derives more than 5% revenue from the production or distribution of alcohol, or derives more than 50% revenue from services related to alcohol.
- A company is deemed to be a pornography-related company if it is involved in the production of pornography, or derives more than 5% revenue from the distribution of pornography.



- A company is deemed to be a gambling-related company if it derives more than 5% revenue from either the production or distribution of gambling, or derives more than 50% revenue from services related to gambling.
- A company is deemed to be a military equipment related company if it is involved in either production or distribution of military equipment and derives more than 5% revenue from involvement in military equipment, or if it is involved in services related to military equipment and derives more than 50% revenue from involvement in military equipment.
- A company is deemed to be a controversial weapons related company if it is involved in anti-personnel mines, biological weapons, chemical weapons, cluster munitions, or depleted uranium.
- A company is deemed to be a nuclear weapons related company if it is involved in any nuclear weapons programme inside or outside of the Non-Proliferation Treaty (NPT).
- A company which appears as excluded on the NBIM List.

The Investment Manager will explicitly manage the portfolio's carbon intensity, which is measured for the securities the Investment Manager holds on the long side of the portfolio (treating long positions as a standalone portfolio) and is managed to be equal to or lower than the equivalent measure computed for the Fund's short portfolio, at the time of rebalance.

The Investment Manager's security selection process will actively tilt toward issuers with superior ESG characteristics. The portfolio weighted ESG scores for the securities held on the long side of the portfolio (treating long positions as a standalone portfolio) is managed so as to exceed the equivalent measure computed for the Fund's short portfolio.

**What is the policy to assess good governance practices of the investee companies?**

The Fund will systematically integrate one or more governance-related signals, as defined by the Investment Manager, into its investment view. Such signals are designed to capture various dimensions of target companies' governance in order to assess the extent to which the companies in which the investments are made follow good governance practices.

**Is there a commitment to reduce by a minimum rate the scope of investments considered prior to the application of the strategy? (Including an indication of the rate)**

The Fund does not apply such a committed minimum rate.

**Does this financial product consider principal adverse impacts on sustainability factors?**

- Yes
- No

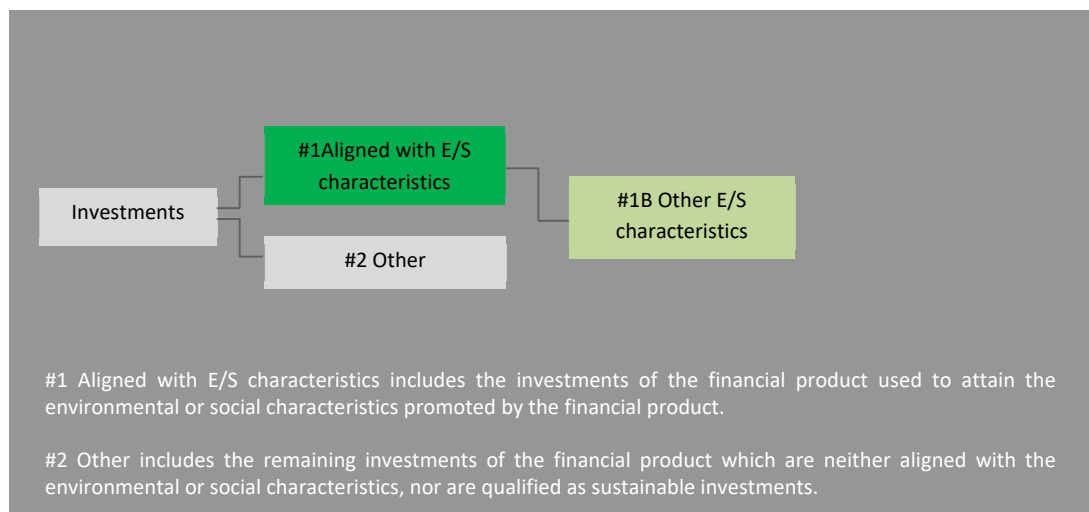


## E. Proportion of investments

### What is the planned asset allocation for this financial product?

The Fund plans to use **70%** of its investments to attain the environmental or social characteristics promoted (#1 Aligned with E/S characteristics).

The remaining investments of the Fund which are not aligned with the environmental or social characteristics are planned to be **30%** (#2 Other). The Fund does not target a sustainable investment objective.



### How does the use of derivatives attain the environmental or social characteristics promoted by the financial product?

The Fund promotes environmental or social characteristics by (i) utilising positive tilts towards securities with superior ESG characteristics as well as (ii) managing carbon emissions. In order to achieve the ESG strategy of the Fund, the Investment Manager will compare the results of ESG scores and carbon intensity of the long leg of the Fund’s portfolio against the ones of the short leg of the Fund’s portfolio.

Where derivatives are used to gain exposure to individual issuers, the environmental and/or social characteristics promoted will be applied on a look-through basis to the underlying issuer.

The environmental and/or social characteristics promoted will not be applied to derivatives that do not provide exposure to individual issuers (e.g. equity futures, FX forwards).

### What investments are included under “#2 Other”, what is their purpose and are there any minimum environmental or social safeguards?

Where the Fund invests in instruments other than single name equities, including derivatives thereof, (such as those listed in the Investment Approach section), they are not subject to



minimum environmental or social safeguards due to the nature of these instruments. This includes a portion of the Fund's assets which are held in cash or cash equivalent instruments and/or used for derivatives margining and collateral requirements.



## F. Monitoring of environmental or social characteristics

**What sustainability indicators are used to measure the attainment of the environmental or social characteristics promoted by this financial product?**

The sustainability indicators used are:

- the carbon intensity of the Fund's portfolio long leg;
- the carbon intensity of the Fund's portfolio short leg;
- the ESG score of the Fund's portfolio long leg;
- the ESG score of the Fund's portfolio short leg; and
- percentage of investments in companies that do not comply with the exclusion criteria.

**How are the environmental or social characteristics and the sustainability indicators monitored throughout the lifecycle of the financial product and the related internal/external control mechanism?**

ESG-related investment guidelines and constraints, namely the sustainability indicators just noted, are coded directly into the portfolio optimization process. Adherence to the ESG characteristics and indicators is monitored on a regular basis as part of the investment process and compliance controls of the Sub-Fund. Reporting is provided to Fund clients relating to the sustainability indicators noted.



## G. Methodologies

**What is the methodology to measure the attainment of the environmental or social characteristics promoted by the financial product using the sustainability indicators?**

The Investment Manager has a methodology associated with each of the sustainability indicators above, for example an ESG score threshold determined from third-party ESG ratings data or a carbon intensity formula consistent with industry frameworks. This facilitates codification of the indicators into the portfolio construction process. Reporting is provided to clients consistent with the methodologies, and the portfolio management team is able to monitor the same data.



## H. Data sources and processing

**What are the data sources used to attain each of the environmental or social characteristics including the measures taken to ensure data quality, how data is processed and the proportion of data that is estimated?**



The Investment Manager is quantitatively-oriented and makes use of a variety of data sources. Specific to ESG-related data, this Fund’s portfolio construction process deploys a combination of proprietary models and a variety of third-party data sources in its portfolio construction process. Data sources include:

- Raw data which we process into proprietary ESG investment signals;
- MSCI ESG ratings data;
- Carbon-related data (e.g., emissions, reserves, etc.) from Trucost and MSCI; as a CDP signatory, we also have access to their climate-related data; and
- Screening lists based on industry codes, restricted activities, etc.

Data integrity has been a well-known historic research issue for ESG, and we carefully analyse the quality and scope of third-party ESG data we consume. The Investment Manager maintains a regular dialogue with its data providers, and is vigilant in pointing out any issues in the data for resolution.

Data is never taken in “as is”, but rather is subject to coverage checks and the Investment Manager imputing gaps where possible. This may include estimating carbon emissions for companies in the investment universe that are not yet covered by providers. Estimations vary by data provider and investment universe, although for the sustainability indicators noted above, the Investment Manager finds existing coverage suitable and observes improving trends.

In addition to checks to promote data integrity, the Investment Manager seeks to proactively identify and address omissions or errors in individual data points provided by vendors, enriching the data set for all consumers.

Moreover, the Investment Manager participates in broad consultations with data providers to improve the usefulness of their current and future offerings as the ESG landscape evolves and matures.



## I. Limitations to methodologies and data

**What are the limitations to the methodologies and data sources? (Including how such limitations do not affect the attainment of the environmental or social characteristics and the actions taken to address such limitations)**

Data for ESG has its limitations, with, for example, comparatively short time periods and sparse or inconsistent coverage. We view handling potentially incomplete and noisy data as one of our competitive advantages, further described in our response to point H above.

In addition, we have ongoing due diligence of the 3<sup>rd</sup> party data solutions we utilize, and proactive due diligence of new data solutions that may further strengthen our process. This due diligence involves an economic analysis to help validate whether the data actually captures the dimensions of ESG that it is designed to capture. We believe this economic analysis is not always undertaken by data providers, but we consider it critical to inform us about the potential usefulness of the data. Examples of the types of analyses we undertake can be found in our public whitepapers, for example “Supply Chain Climate Exposure” or “Assessing Risk through Environmental, Social and Governance Exposures.”

Note that ESG-related data received from third parties may be incomplete, inaccurate or unavailable from time to time. As a result, there is a risk that the Investment Manager may incorrectly assess a security or issuer, resulting in the incorrect direct or indirect inclusion or exclusion of a security in



the portfolio of the Fund. Additionally, securities or issuers without ESG-related data may be included in the portfolio of the Fund.

Applying ESG criteria to the investment process may lead the Investment Manager to invest in or exclude securities for non-financial reasons, irrespective of market opportunities, in order to achieve the ESG characteristics promoted by the Fund following the approach described above.

In addition to the preliminary assessment of investment opportunities against the ESG characteristics described herein, the Investment Manager will monitor the invested positions on an ongoing basis. Should an invested security not fulfil or meet the ESG criteria, the Investment Manager will take appropriate actions deemed necessary (including but not limited to portfolio rebalancing), within a reasonable timeframe and in such manner that is line with the interest of the Fund.

 **J. Due diligence**

**What is the due diligence carried out on the underlying assets and what are the internal and external controls in place?**

Third-party and internal ESG data monitors assets in our investment universe, and any changes with such data are dynamically reflected in our models' views. AQR also utilizes an ESG company monitor that identifies problematic exposures, and for the largest positions we engage the company to better understand the risks and improve transparency. AQR also hosts several exclusion lists, e.g., for controversial weapons, that can be applied to portfolios; such companies are identified using, for instance, MSCI's controversial weapons flag, and portfolios are continuously monitored to ensure compliance with the precise exclusion criteria.

 **K. Engagement policies**

**Is engagement part of the environmental or social investment strategy?**

- Yes
- No

**If so, what are the engagement policies? (Including any management procedures applicable to sustainability-related controversies in investee companies)**

The Investment Manager's engagement policy can be found on AQR's [ESG webpage](#).

AQR's engagements are conducted at the firm level, not specific to individual portfolios, and are focused on transparency and relevant holdings are considered within the overall assessment for engaging with a company.

AQR undertakes direct engagement with companies based on ESG concerns and to improve companies' environmental-related data disclosures. AQR's Stewardship Committee is responsible for monitoring and tracking its engagement activities. Each engagement has a defined objective, and failure to attain this objective over a given time horizon can trigger our escalation process.



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**L. Reference benchmark**

**Has a reference benchmark been designated for the purpose of attaining these characteristics promoted by the financial product?**

Yes

No