



# Annual ESG Report 2020

# 2020 in Hindsight

We begin 2021 with a glimmer of hope that it will be a year of renewed health and rejuvenation as vaccinations slowly progress and a return to normalcy appears on the horizon. It goes without saying that we wish our clients the best and understand this has been a very difficult time for many reasons.

From an environmental perspective, the reduction in global travel induced by 2020's COVID-19 crisis did lead to lower pollution and fewer carbon emissions.<sup>1</sup> Unfortunately, a one-year reduction in environmental impact doesn't reverse years of climate change; the United States' National Aeronautics and Space Administration (NASA) reported that 2020 is still tied for the hottest year in recorded history.<sup>2</sup>

Although the trend is alarming, there were some positive developments including more companies and institutional investors pledging to reduce carbon emissions, with the aim of potentially achieving a Net-Zero carbon footprint.<sup>3</sup> This transition will not be easy. To aid investors in achieving their ambitious and admirable carbon reduction goals, AQR published a paper in 2020, entitled "(Car)Bon Voyage: The Road to Low Carbon Investment Portfolios". The paper, which is available on [AQR.com/ESG](https://www.aqr.com/ESG), examines critical issues that can arise when implementing a carbon-reduction program in an investment portfolio and provides practitioners with guidance on how to measure and manage their overall footprint.

Today, over \$20 billion - out of the more than \$25 billion<sup>4</sup> in dedicated ESG client assets we manage - is in strategies that aim to reduce or eliminate carbon emissions. We are very proud of the work we have done to create unique climate solutions for our clients, including our first portfolio with a significant negative carbon footprint. Introduced in 2020, we already manage over \$1 billion<sup>5</sup> in portfolios that deliver "portfolio carbon credits," providing a direct and measurable benefit for our clients seeking to achieve their climate objectives.

While we continue to advance our climate research and techniques to manage environmental risks in portfolios, there are plenty of other areas where we have focused our efforts in 2020. We introduced our first Social signals to better predict negative social sentiment. We also continued to enhance our Environmental and Governance signals. Looking forward, we will continue our signal research, including focusing on ESG themes, and hope to report even more progress at this time next year.

<sup>1</sup> Sources: <https://www.cnn.com/2020/12/11/covid-record-drop-global-carbon-emissions-2020.html>; <https://www.carbonbrief.org/global-carbon-project-coronavirus-causes-record-fall-in-fossil-fuel-emissions-in-2020>

<sup>2</sup> Source: <https://www.scientificamerican.com/article/2020-will-rival-2016-for-hottest-year-on-record/>

<sup>3</sup> Source: <https://www.unepfi.org/net-zero-alliance/>

<sup>4,5</sup> Source: AQR. Approximate as of 12/31/2020, includes assets managed by AQR and its advisory affiliates.

The advancements made in our ESG research and portfolio management efforts over the past year were significant, and we are equally pleased with the improvements to our stewardship program. 2020 was the first year that we began direct one-on-one dialogues with certain of our portfolio holdings' management teams on significant ESG issues. These discussions resulted in better informed proxy voting decisions on our part and encouraged the companies in which we invest to manage their ESG risks and deliver better outcomes for their investors (our clients).

We would like to take the opportunity to thank our clients for their continued support. 2020 was a difficult year for many managers, AQR included. Our preference for high-quality assets at attractive valuations and with improving fundamentals was not a strategy always rewarded by markets. Our overall investment philosophy, like ESG, focuses on the long term, and we will strive to continually improve our ESG capabilities to create the best possible future, both for our clients and the world at large.

## AQR ESG Steering Committee

**Jeff Dunn**  
Principal,  
Head of APAC

**Suzanne Escousse**  
Principal,  
Chief Marketing Officer

**Jen Frost**  
Principal,  
Chief Human Resources Officer

**Ronen Israel**  
Principal,  
Co-Head of Portfolio Management,  
Research, Risk and Trading

**Lars Nielsen**  
Principal,  
Co-Head of Portfolio Management,  
Research, Risk and Trading

**Chris Palazzolo**  
Principal,  
Head of Responsible Investment

**Lukasz Pomorski**  
Managing Director,  
Head of ESG Research

**HJ Willcox**  
Principal,  
Chief Legal Officer and Global  
Head of Compliance

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# About AQR

AQR is a global investment management firm dedicated to delivering results for our clients. At the nexus of economics, behavioral finance, data and technology, AQR's evolution over two decades has been a continuous exploration of what drives markets and how it can be applied to client portfolios. Our culture of intellectual curiosity compels us to challenge the status quo, disrupt long-held beliefs and uncover new insights - we view the pursuit of truth and research excellence as our fundamental responsibility to ensure we remain at the forefront of systematic investing. AQR is committed to its fiduciary duty and to serving as a responsible investor.

1998

AQR - Applied Quantitative Research -  
was founded

61

Awards received for  
our academic research

~40

Diversified strategies  
across equity, fixed income  
and alternatives

43%

of our employees hold advanced  
degrees (including ~50 Ph.D.s)

20+

Years at the nexus of  
economics, behavioral finance,  
data and technology

4

Consecutive years as one  
of Pensions & Investments  
Best Places to Work

# ESG Philosophy

AQR is committed to helping our clients achieve their ESG goals. We seek to integrate ESG in both our asset selection and our ownership decisions.

## **AQR will:**

Embrace **research and education** on ESG criteria in pursuit of **continuous improvement** to our understanding of the risk and opportunities to our clients, our investment strategies, and our business.

Consider **incorporating ESG** investment ideas on an equal footing with other investment ideas. In all mandates, ESG investment ideas will be implemented to the extent they are driven by improvement to risk and portfolio return characteristics.

Be **transparent** with respect to its progress on ESG research and implementation solutions.

Ensure it has the **resources** available to adhere to these guiding principles and to aid clients in their understanding of ESG-based investing.

Review our ESG policies for greater detail on how we implement our ESG philosophy:

### **AQR Stewardship Philosophy**

Our Stewardship Philosophy details how we aim to integrate our core values and Responsible Investment objectives with our focus on maximizing the opportunity to create positive long-term value for our clients.

### **AQR Proxy Voting Policy**

For commingled client assets, AQR takes a sustainable approach to proxy voting to promote sustainable practices in portfolio companies. Our Proxy Voting Policy details our procedures and approach to proxy voting.

### **AQR Engagement Policy**

Our Engagement Policy is grounded in our fundamental belief that open dialogue, transparency, and good corporate governance are paramount to well-functioning capital markets.

Our policies can be viewed in full [here](#).

# ESG Governance Structure

The ESG Steering Committee, which furthers all ESG efforts and initiatives, oversees four sub-committees - the Research, Stewardship, Reporting and Communication, and ESG-in-Office committees - to add expertise from around the firm and drive change.



Source: AQR.

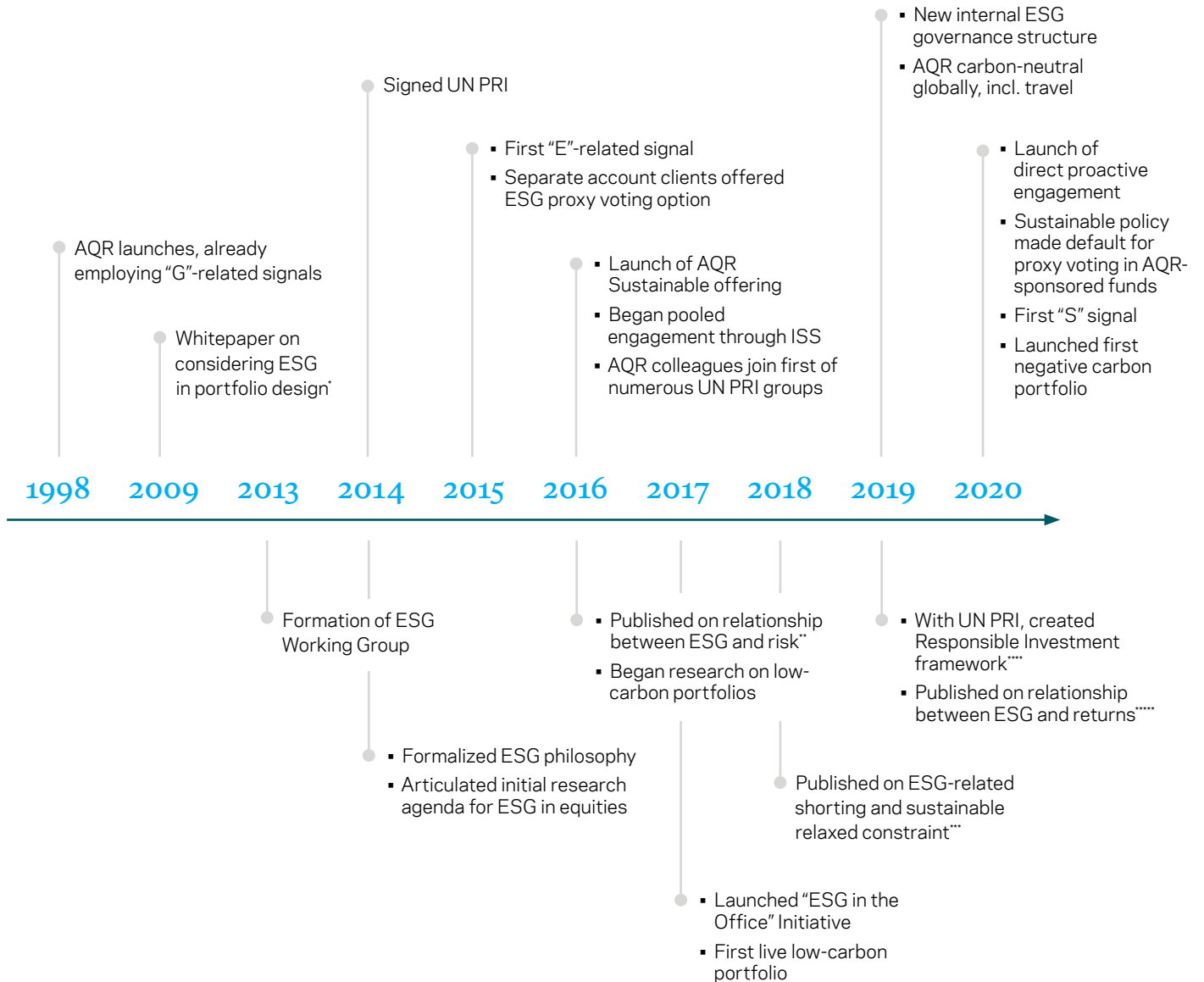
## ESG Resources

AQR uses a team-based approach to drive firmwide ESG initiatives. With oversight and direction from our governance structure, we leverage resources from across the firm to implement ESG initiatives, including assistance from marketing, business development, portfolio implementation, legal, compliance and operations.

Our ESG Steering Committee includes our Head of Responsible Investment, Head of ESG Research, Co-Heads of Portfolio Management, Research, Risk and Trading, Chief Marketing Officer, and Chief Legal/Compliance Officer. This committee has the authority and mandate to prioritize significant ESG projects, allocate firmwide resources and improve AQR’s ESG characteristics across the four ESG sub-committees.

The ESG sub-committees leverage the full scope of AQR’s capabilities to add ESG-specific value to clients. Over the past year, our collective efforts have enabled us to broaden our reach and grow our ESG-related capabilities and offering.

# Our ESG Journey



\* "A Framework for ESG Consideration in Portfolio Design" – Jul. 2009

\*\* "Assessing Risk through Environmental, Social and Governance Exposures" – Dec. 2016 (Journal of Investment Management: Vol. 16, No. 1, 2018)

\*\*\* "Hit 'Em Where It Hurts: ESG Investing 2.0" published in IPE – Oct. 2018

\*\*\*\* "Clearing the Air: Responsible Investment" – May 2019, also published in The Journal of Portfolio Management Ethical Investing 2020\*\*\*\*\*

Responsible Investing: The ESG-Efficient Frontier – Oct. 2019

Source: AQR, UN PRI.



# Our ESG Program

2020 at a Glance

65%

ESG AUM  
Growth

\$25 billion

Dedicated  
ESG AUM

80%

of AUM  
integrates ESG-  
related alpha or  
risk signals

79,500+

Proxies  
Voted



Launched First of Its Kind  
Negative Carbon Portfolio



Certified CarbonNeutral® Company 2021



A+ Rating for Strategy and Governance  
in UNPRI Assessment Report

Source: AQR, UNPRI, Natural Capital Partners. AUM is approximate as of 12/31/2020, includes assets managed by AQR and its advisory affiliates.

# Why a Quantitative Approach to ESG

We view our quantitative approach as naturally compatible with ESG and believe that a systematic investment approach to ESG offers several important advantages.

## **A quantitative approach can utilize and process more ESG data.**

A quantitative process is theoretically unlimited in its potential to look at ESG data, thanks to the massive computing power that underpins it. A systematic investment process considers both financial and non-financial data - including ESG - in a highly sophisticated, ever-evolving model designed to capture helpful information to evaluate the overall health and attractiveness of potential investments. This process seeks to avoid human bias and analyzes many securities across countless dimensions, covering more ground than would be possible for a team of human analysts.

At AQR, we put a significant weight on ESG data. In fact, in some of our strategies, we estimate that we have about 15% of our model focused on ESG data alone.<sup>6</sup>

## **A quantitative manager can offer more transparent ESG integration.**

We can state the weight of ESG in our models because we can precisely specify which of our signals are ESG-related.

<sup>6</sup> Source: AQR. Approximate as of 12/31/2020, includes assets managed by AQR and its advisory affiliates.





We also believe quantitative managers are well-positioned to incorporate and deliver on non-financial goals while maintaining the desired risk/return profile of a strategy. Quantitative managers can provide estimates on what an additional ESG consideration will do to a strategy's performance, since we can backtest the effect of adding an ESG objective to a strategy.

**Responsible ownership practices go together with a systematic investment approach.**

Nothing precludes a quantitative manager from implementing responsible ownership approaches, such as engaging with company management and exercising support for ESG measures through proxy voting. In fact, our 2020 progress within responsible ownership (detailed later in this report) offers compelling evidence that quantitative managers can be successful responsible owners.

We have found that as a large quantitative manager, even though we are highly diversified across many different positions, our aggregate position in many companies ranks within the top ten shareholders. With that size of a position, company management is typically receptive to a dialogue with us and our vote can be meaningful to the outcome of proxy issues. Additionally, there are certain ESG issues that appear on proxies - such as corporate restructurings - that we already analyze from an investment standpoint. In those cases, our systematic investment process can help inform our responsible ownership approach.

# Our ESG Approach

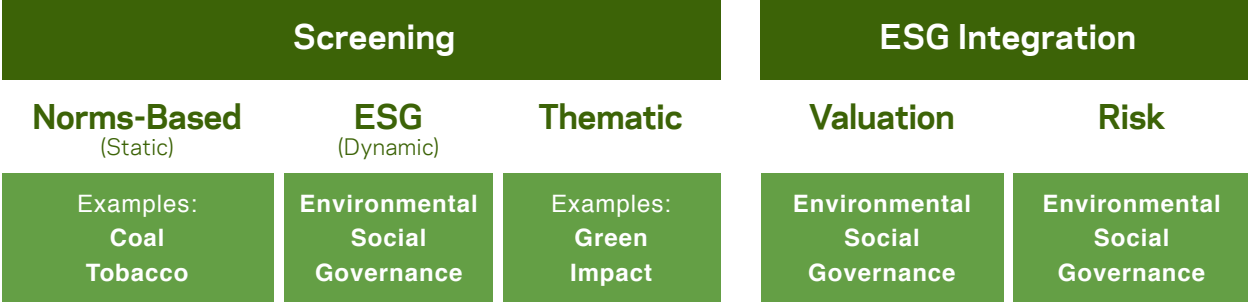
The many motives for responsible investing and the increasingly vast landscape of ESG-focused products often lead to confusion around the meaning and implementation of ESG. Our approach to ESG starts by clearly defining a structure of the terms and approaches within responsible investment.

We collaborated with UN PRI to develop a framework of the approach and terms necessary to have an informed discussion and investment policy on responsible investing. The most salient distinction in our framework is the division of ESG investment approaches and terms into two overarching halves - responsible asset selection and responsible ownership.

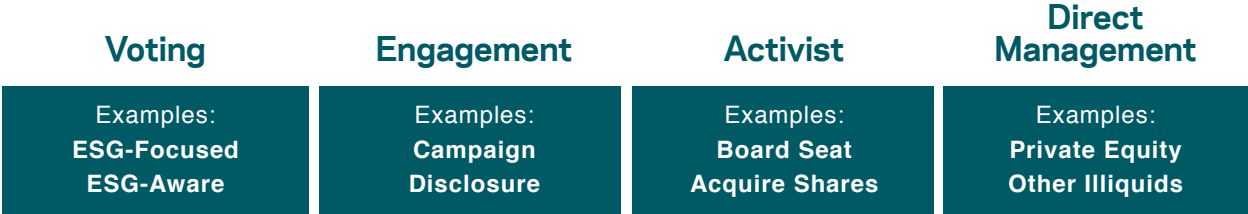
Responsible asset selection is the consideration of ESG issues that may affect the long-term pricing of an asset as well as the long-term sustainability of the issuer’s business model. Responsible ownership is a thoughtful awareness of the avenues to interact with companies to influence their business, beyond the simple decision of whether to invest.

The coming discussion of our ESG program aligns with this clear distinction and details our progress on both. Our full responsible investing framework is [here](#).

## Responsible Asset Selection



## Responsible Ownership



## Responsible Asset Selection

At the end of 2020, AQR managed U.S. ~\$140 billion,<sup>7</sup> approximately 90% of which includes ESG-related investment themes. In AQR alpha models - the models that underpin our strategies solely seeking to maximize returns with no explicit ESG considerations - we incorporate E, S, and G signals individually to the extent that we believe they are additive to the risk/return profile of our strategies, consistent with our research published on the ESG-efficient frontier.<sup>8</sup>

Facilitated by the ESG Research Committee and our team-based approach to portfolio management, ESG signals form an increasingly important part of our research agenda. In 2020, we added our first “S” signal to a number of portfolios as part of our Sentiment theme in stock selection. Sentiment themes are used to systematically gauge various stakeholders’ feelings or tone for a company. Prior to the

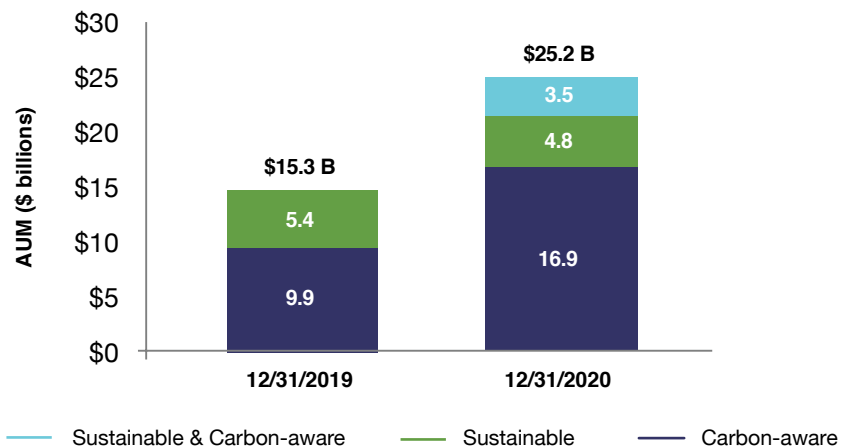
incorporation of S signals, we had primarily been utilizing Governance themes as well as select Environmental themes in certain strategies. As 2020 draws to a close, we are proud to now be utilizing E, S and/or G signals in various models across the firm.

AQR begins 2021 managing over \$25 billion in dedicated ESG strategies which employ sustainable themes that may reduce risk or achieve a specific ESG objective. These include our proprietary carbon-aware and sustainable methodologies, two processes which may also be combined. Our dedicated ESG solutions encompass customized implementations designed in service of clients’ non-financial objectives, such as a custom dynamic screen or a tilt to manage reputational risk.

***As 2020 draws to a close, we are proud to now be utilizing E, S and/or G signals in various alpha models across the firm.***

### Dedicated ESG Assets

Year-end 2019 vs. 2020



<sup>7</sup> Source: AQR. Approximate as of 12/31/2020, includes assets managed by AQR and its advisory affiliates.

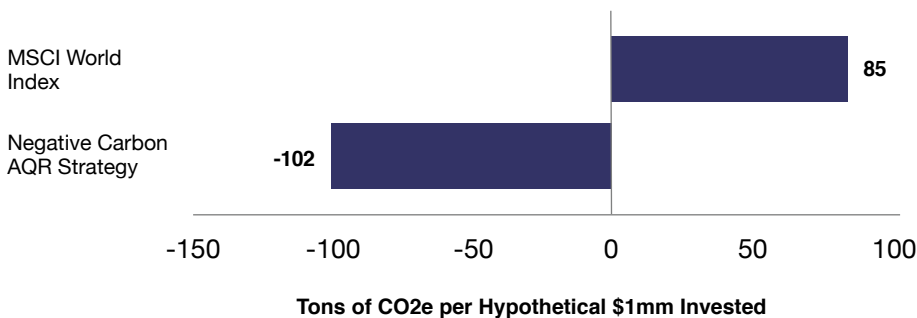
<sup>8</sup> Source: AQR. All figures approximate as of 12/31/2020; AUM includes assets managed by AQR and its advisory affiliates. See Responsible Investing: [The ESG Efficient Frontier \(2020\)](#)

2020 saw both meaningful enhancements and a sizeable expansion of AQR’s Sustainable investment process. Our Sustainable strategies seek to avoid investing in companies with the greatest ESG risks, while positively tilting toward companies with attractive ESG profiles. While these portfolio decisions are systematically applied within each sector, in 2020, we added exclusions of industries we deemed antithetical to an ESG process. These industry exclusions prohibit any of our Sustainable strategies from holding long positions in controversial weapons, fossil fuels (defined using fossil fuel reserves as well as revenue from thermal coal/oil sands), and tobacco (also based on a revenue threshold). In market-neutral or relaxed constraint (130/30) portfolios, we may take short positions in these industries even if screened out on the long side, as we fervently believe this is a more forceful expression of a negative ESG view.

We are currently able to apply our Sustainable process to equity strategies or stock selection sleeves of multi-strategy portfolios. Last year, we expanded our Sustainable strategy range, most notably into the alternative multi-asset total return category. This dovetailed with an extension of our climate-aware capabilities, both to more long-only equity accounts and to long-short multi-asset strategies. We are pleased to have our first portfolio targeting significant negative exposure to carbon emissions with over \$1 billion in client assets under management, which we believe to be the first and largest of its kind in the multi-strategy hedge fund industry. We believe these portfolio carbon credit strategies will be essential to achieving aggressive Net Zero emissions targets, which some of our clients are beginning to implement.

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### CO2 Emissions of a Negative Carbon Strategy vs. MSCI World



Source: AQR, Trucost. Portfolio weights as of November 30, 2020. Carbon Tonnage represents Scope 1 and Scope 2 CO2e emissions. One dollar invested in this negative carbon strategy would have been equivalent to offsetting the carbon footprint of \$1.20 invested in the MSCI World Index. Hypothetical data has inherent limitations, some of which are disclosed in the appendix.

# Responsible Ownership

AQR’s stewardship approach is grounded in transparency, as well as a desire to create positive long-term value for our clients. Our stewardship efforts cover a range of activities, including:

- | Voting our proxies in an ESG aware manner
- | Engaging directly with management of certain companies where AQR may have a stronger voice or potential impact
- | Collaborating with asset owners and other investors on specific issues to hold management accountable for misuse of their positions or other issues that are inconsistent with our ESG core values
- | Participating in industry groups or bodies that advocate for specific changes or greater disclosure on specific issues inconsistent with our ESG core values
- | Exercising litigation rights to address corporate mismanagement, breach of fiduciary duty, fraud, misrepresentation or violations of other laws

## Engagement

Part of responsible ownership involves engaging with the companies we own. That may be surprising from a quantitative manager. However, it is our fervent belief that greater transparency is positive for all market participants, hopefully leading to better alignment between companies and their investor base, as well as more accurate pricing of ESG risks and opportunities. Therefore, the guiding principle in all our engagement activities is transparency in ESG disclosures. Consistent with AQR’s investment process, our engagement program is conducted at the firm level, rather than tailored to individual portfolios. AQR’s Stewardship Philosophy, Engagement Policy and Proxy Voting Policy are available at [AQR.com/ESG](http://AQR.com/ESG).

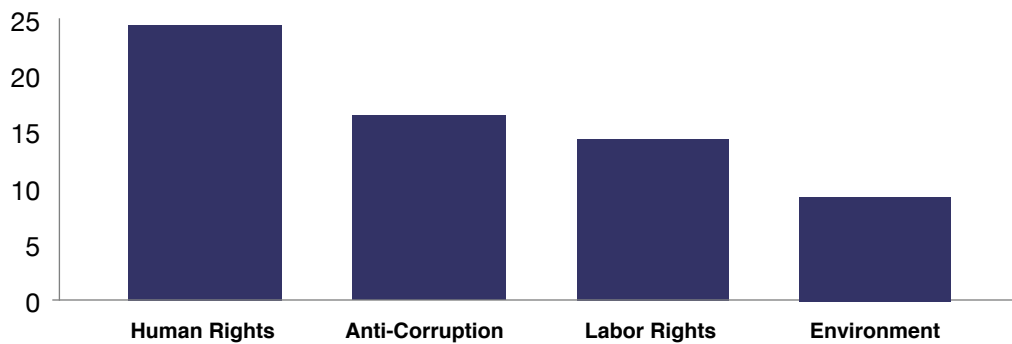
As a quantitative manager, we utilize ESG data to identify potential opportunities for engagement with companies. In 2019, we built AQR’s ESG Company Monitor, a proprietary program using various ESG data sources to cross-reference where problematic ESG exposures occur in our largest holdings of individual companies. For the largest positions with ongoing ESG concerns, AQR seeks to engage in a substantive dialogue with company management to better understand the drivers of related ESG risks, and what steps the company is taking to address these, including providing greater transparency to the market. AQR’s Stewardship Committee oversees this engagement process, and any recommendations made to companies are done in a manner that is consistent with our desire to see ESG risks properly managed and issues resolved in a fully transparent manner.

***It is our fervent belief that greater transparency is positive for all market participants, hopefully leading to better alignment between companies and their investor base, as well as more accurate pricing of ESG risks and opportunities.***

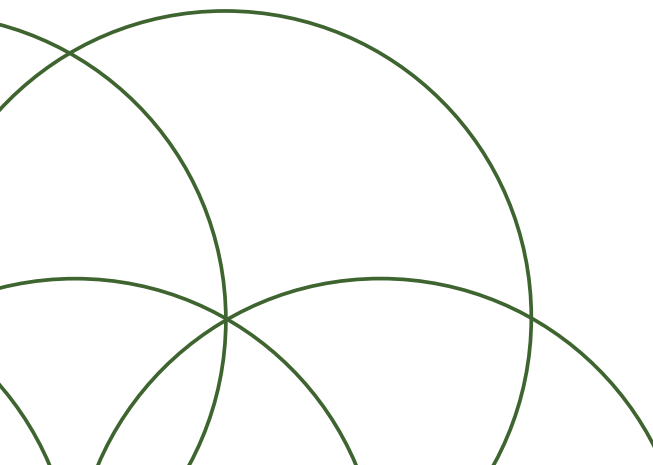
2020 marked our first year of conducting proactive direct engagement with company management of our portfolio holdings. This is a significant advancement. Of the 74 total engagements we undertook in 2020, we are proud to report that 63 were specifically dedicated to the below United Nations Global Compact (UNGC) areas. All engagements focus on transparency. Our specific goals are for companies to publish more data and/or reports publicly so investors can review and track how companies are responding to ESG controversies. This signals to the investment community how

seriously companies are responding to these ESG risks, if they are making any changes to processes, what goals they are setting for themselves, and how they are tracking progress towards those goals. We believe this increased transparency should reduce future ESG risks at the company level. Beyond proactive direct engagement, we also engage directly on upcoming proxy issues with the management of portfolio companies in which AQR is a significant stakeholder. Over the course of 2020, we undertook ten such engagements.

### ESG-Related Engagements in 2020 by UNGC Area



Source: AQR. AQR's quarterly engagements from January 1, 2020 to December 31, 2020.





## Collective Engagement and Industry Initiatives

In addition to our own engagement initiatives, we also work within the industry to advance the collective ESG effort. AQR is an active participant in industry discussions across the spectrum of ESG-related issues. There have been several legislative developments in the ESG space in which AQR has engaged with policymakers and regulators to share our insights and perspectives as new rules are finalized.

Our efforts in this area include:

Collaboration with the New Zealand Superannuation Fund and 50+ other institutional investors on an initiative to engage with social media companies with the aim of strengthening controls to prevent the livestreaming/distribution of content containing terrorism or extreme violence. This engagement began in 2019 and we continued to support this important initiative in 2020.

In 2020, we became an investor signatory to the CDP (formerly Carbon Disclosure Project). Each year the CDP supports thousands of companies, cities, states, and regions to measure and manage their risks and opportunities on climate change, water security, and deforestation.

Engagement on the European disclosure framework coming into force in March 2021, the SEC guidance on proxy voting and the U.S. Department of Labor's proposed ESG rules.

Service on the UN PRI Hedge Funds Advisory Committee as well as AIMA's Global Responsible Investment Committee.

In the same vein, AQR chaired the CFA UK ESG Standard Review Working Group. This group is seeking to establish CFA standards to ESG disclosures for investment products in the UK.

***There have been several legislative developments in the ESG space in which AQR has engaged with policymakers and regulators to share our insights and perspectives as new rules are finalized.***

## Voting

Finally, no engagement protocol is complete without an understanding of how we vote our proxies. We made significant enhancements to our proxy voting policy in 2020 and moved to the use of a sustainable policy as our default voting guidelines for all AQR funds.

Our portfolios tend to be highly diversified, often entailing many small positions across a wide range of companies and industries. AQR utilizes both the services of proxy advisers as well as internal proprietary research when making informed decisions on individual proxy votes.

Below is a summary of AQR's proxy voting program in 2020, broken down by proposal types.

Category	Number
Total Number of Votable Ballots	86,530
Total Number of Meetings	7,168
Percent Voted	92% <sup>9</sup>
Number of Shareholder Proposal Votes	1,417
Percent of Total Votes With Management	91%
Percent of Total Votes Against Management	9%

We seek to align our voting with long-term shareholder value creation, including on ESG issues. The voting patterns above reflect our belief that, as a starting point, company management should be given leeway to determine what is in their companies' best interests, while also being held accountable to both financial results and management of ESG risks.

<sup>9</sup> We currently do not vote in a number of markets where there are beneficial ownership disclosure and/or Power of Attorney requirements, except in the case of separate accounts where we have express permission from the client via their IMA to do so.

# Applied Research

AQR frequently participates in academic and practitioner dialogue regarding ESG. We seek to understand the broader implications and challenges stemming from ESG issues to help our clients navigate them too, and we feel our thought leadership in the space is distinguishing. Many colleagues publish ESG-related papers that can be found at [AQR.com/ESG](https://www.aqr.com/ESG).

In 2020, AQR employees authored or co-authored several notable papers that contribute to the academic and industry literature on ESG:

## **Responsible Investing: The ESG-Efficient Frontier**

*Journal of Financial Economics, Forthcoming*

We propose a theory in which each stock's environmental, social, and governance (ESG) score plays two roles: 1) providing information about firm fundamentals and 2) affecting investor preferences. The solution to the investor's portfolio problem is characterized by an ESG-efficient frontier, showing the highest attainable Sharpe ratio for each ESG level. The corresponding portfolios satisfy four-fund separation. Equilibrium asset prices are determined by an ESG-adjusted capital asset pricing model, showing when ESG increases or lowers the required return. Combining several large data sets, we compute the empirical ESG-efficient frontier and show the costs and benefits of responsible investing. Finally, we test our theory's predictions using commercial ESG measures, governance, sin stocks, and carbon emissions.

## **(Car)Bon Voyage: The Road to Low Carbon Investment Portfolios**

*AQR White Paper*

We discuss how an investment portfolio could dramatically reduce its carbon-footprint, potentially even achieving 'net zero.' ('Net zero' implies a combination of reducing carbon output as well as offsetting remaining emissions). Our central message is that very large carbon reductions are feasible but not as straightforward as some commentators suggest. The usual approach of security selection (e.g., divesting from firms with highest emissions) can lead to a substantial carbon reduction but may not be enough for investors with the most ambitious reduction targets. Such investors may need other techniques to achieve their goals, for example shorting high carbon-footprint companies or trading instruments such as carbon offsets and carbon permits. We discuss the pros and cons of such techniques and their importance to allocators traveling on the pathway toward net zero.

## **The Survey of Climate Finance Literature**

*Working Paper*

The paper reviews the literature studying interactions between climate change and financial markets. It first discusses various approaches to incorporating climate risk in macro-finance models. It then reviews the empirical literature that explores the pricing of climate risks across a large number of asset classes including real estate, equities, and fixed income securities. In this context, it discusses how investors can use these assets to construct portfolios that hedge against climate risk and concludes by proposing several promising directions for future research in climate finance.

Additionally, in 2020, AQR colleagues were invited to speak about ESG at industry engagements and conferences. A few examples include:

- Federal Reserve Bank of Chicago's event: Climate Change Risk in Financial Markets
- ESG in Liquid Alternatives - Kepler SM ESG & Alternative UCITS
- 2020 UN PRI Academic Week Conference
- AIMA Event on Short Selling and Responsible Investment
- 17<sup>th</sup> annual IDC conference

## Corporate Sustainability Initiatives

AQR has several initiatives to help promote sustainability and social responsibility within our operations and with respect to our community interactions.

### **ESG-in-Office**

We strive to create a more sustainable workplace through education, conservation, and innovation. AQR's ESG-in-Office Committee began as an employee-originated initiative in 2017, bringing together colleagues from across the firm to enhance the management of ESG in our own business practices. The group has implemented several notable projects, ranging from reducing the consumption of single-use non-recyclable material, organizing environmental volunteer projects for employees, to reducing our carbon footprint and offsetting what we cannot eliminate with Renewable Energy Credits and other carbon offsets.

We are proud to announce that as of 2021, AQR is a CarbonNeutral® certified company through Natural Capital Partners, a third-party climate specialist. Our carbon neutral commitment spans all offices globally and includes business travel related emissions.

### **Culture and People**

Our people are our most valuable asset. We strive to give our employees an exceptional experience driven by intellectual curiosity, constant improvement, and collaboration. Our approach to fostering a diverse and inclusive environment where all employees have a true sense of belonging is multi-faceted across recruiting strategies, community-building activities, leadership development programs, policies and training. We also invest significantly in our employees' careers as well as leadership and personal development.

We have implemented over 125 diversity initiatives and events over recent years. In 2020, we established a Diversity & Inclusion governance committee comprised of senior leaders across the firm to further drive focus and progress. We have highly engaged employee-led networks such as AQR WIN (our women's network) and AQR Pride (our

LGBTQ and allies network) that continued to hold virtual connectivity events throughout the year (Women’s chats, Paint Night, virtual commemoration of NYC Pride March).

## Awards and Recognition in 2020



*Perfect Score for Third Year in a Row in HRC’s Corporate Equality Index<sup>10</sup>*

AQR has received a score of 100% in the Human Rights Campaign’s Corporate Equality Index (CEI) for the third year in a row, once again making the firm one of the “Best Places to Work for LGBTQ Equality.” The CEI is a national benchmarking survey measuring LGBTQ workplace equality. The requirements to achieve a perfect score in the survey are comprehensive and extend across benefits, policies, training, education, community involvement, and senior sponsorship.



*“Best Places To Work in Money Management” from P&I (Pensions & Investments) for the Fourth Year in a Row<sup>11</sup>*

AQR was named one of the “Best Places to Work in Money Management” for the fourth year in a row, a recognition that is largely driven by anonymous employee feedback. Each year, through this survey, we consistently hear the following things from our employees about why they stay - the academic culture, learning opportunities, our focus on employee well-being and benefits, and a strong sense of community.

## Community Partnerships and Philanthropy

AQR’s community partnerships and philanthropic initiatives are centered around three priority areas: social justice, education, and local community partnerships. AQR is committed to becoming part of the support system that provides the foundation of early engagement, education, and mentorship to increase college and job readiness for underserved people of color in the communities in which we work. We have identified local community partners in the US and UK who are creative and innovative in their approaches and where our engagement can help catalyze their efforts. In 2020, we partnered with BLK Capital Management and #talkaboutblack and we remain partnered with ReachOut in the UK to aid under-served students to achieve their education goals. We remain focused on programs that provide exposure to the financial services industry, access to role models, and educational support to help expand the pipeline of underrepresented talent entering university programs.

### *Alleviating Hunger*

We are supporting several well-established philanthropic partners: City Harvest, which is delivering an additional 20 million pounds of food to hungry New Yorkers during the crisis; Holy Apostles Soup Kitchen, whose brown bag program feeds 1,000 New Yorkers a day; and, The Open Door, which continues to serve meals to residents in the Norwalk, Connecticut area. In the UK, we are partnering with The Trussell Trust, which provides emergency food through a nationwide network of food banks.

<sup>10</sup> The Human Rights Campaign named AQR a 2019 and 2020 Best Place to Work for LGBTQ Equality

<sup>11</sup> For four years in a row, AQR was named one of Pensions and Investments’ Best Places to Work in Money Management in 2017, 2018, 2019, and 2020

### *Supporting those on the frontlines*

In recognition of the heroic efforts of medical workers, we have identified two area hospital systems - Stamford Hospital in lower Fairfield County and Mount Sinai Hospital in New York City - where our support will go towards a range of COVID-19 related initiatives including patient care, supplies, and research into treatments and vaccines. We are also giving to UK organization, Mind, which delivers mental help and support during these challenging times.

### *Helping impacted communities*

In India, we are pleased to partner with SEEDS in their commitment to helping the elderly, children, and frontline health workers in areas disproportionately impacted by COVID-19. Additionally, we are supporting Rise Against Hunger India and Goonj, which provide meals, aid, and essentials to communities in need.

# Looking Ahead

AQR continued to expand and refine its responsible investing solutions in 2020, translating our active internal research agenda into enhancements to our ESG-related signals with a focus on proprietary carbon signals that we believe will help us identify stocks with greater Scope 3 emissions and greater sensitivity to carbon risks. Beyond additional signal research, we continue to expand ESG capabilities in other asset classes, and we expect to launch our first sustainable fixed income and long-only multi-asset products in 2021.

We will continue to develop the engagement and proxy programs that moved meaningfully forward in 2020, including increasing the

number of engagements, strengthening our escalation options, and having more detailed discussions around transparency. Our goal is to partner with additional investors more frequently to bring greater strength to our engagement programs. If you are an investor that would like to partner on a specific corporate engagement, please reach out to us at [ESGengagement@aqr.com](mailto:ESGengagement@aqr.com).

We plan to strengthen our position as a business committed to corporate social responsibility. We believe that having a diverse, inclusive, and engaged workforce is key to a successful long-term company that continues adding value to its clients.

To learn more about our ESG program, please visit [AQR.com/ESG](https://AQR.com/ESG) or contact us at [ESG@aqr.com](mailto:ESG@aqr.com)

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