A L T E R N A T I V E   I N V E S T I N G

AQR's DELTA Strategy

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HBS Case Study

In late 2007, AQR focused its years of research on capturing the classical hedge fund strategies in a systematic way by "creating our own product that would seek to deliver these strategies in a risk-balanced and efficiently implemented way."

The new "DELTA" product was designed to be uncorrelated with the overall stock market and would be diversified across nine broad strategies: Fixed Income Relative Value, Managed Futures, Global Macro, Emerging Markets, Long/Short equity, Dedicated Short Bias, Equity Market Neutral, Convertible Arbitrage, and Event Driven.

The goal was to have a well-diversified investment process that reflected the broad performance of the strategy. DELTA managers focused on sizing trades for optimal portfolio construction and risk management rather than selecting a particular subset of potential deals. Emphasis also was placed on diversifying among a collection of hedge fund strategies.

This approach had two advantages: it could be implemented at a relatively lower cost, and would by design try to capture the systematic part of the portfolio strategies.

AQR anticipated launching this product with fees set at 1 percent management fees plus 10 percent of performance over a cash hurdle. This fee structure was closer to fees charged in the mutual fund industry than in the hedge fund industry, where 2 percent of assets and 20 percent of performance, often with no hurdle, was the norm.