



Principle	Principle	Principle
1.1	2.1	3.1
<p>Investment decisions should be based on the best interests of investors and not be influenced by artificial constraints such as the need to invest in a particular industry or asset class.</p>	<p>Investment decisions should be based on the best interests of investors and not be influenced by artificial constraints such as the need to invest in a particular industry or asset class.</p>	<p>Investment decisions should be based on the best interests of investors and not be influenced by artificial constraints such as the need to invest in a particular industry or asset class.</p>
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# CLIMATE TRANSPARENCY REPORT 2020

AQR Capital Management

# About the Climate-related Disclosure Indicators

Climate has been identified as a top priority for PRI signatories, with over 70% of asset owners reporting this as the most important long-term trend they are acting on.

The FSB Task Force's guidance on climate-related financial disclosure aim to create a single framework for disclosure on assessment and management of climate-related risk. The recommendations, supported by investors representing US\$22 trillion, identify four main disclosures, Governance, Strategy, Risk Management, Metrics and Targets, and include specific guidance for asset owners and managers.

As a result, the PRI introduced climate-related disclosure indicators that can be used to align with the TCFD recommendations in the 2020 PRI Reporting Framework.

## About this report

This report is an export of only the climate-related indicators from the 2020 Reporting Framework response. The full Public Transparency Report is available here (<https://reporting.unpri.org/surveys/PRI-reporting-framework-2020/-A3ABD1BD-CBD1-475D-9770-ECE541E88868/79894dbc337a40828d895f9402aa63de/html/2/?lang=en&a=1>). It shows the responses to all the completed climate indicators, even those you chose to keep private. It is designed for your internal review or – if you wish - to share with your stakeholders.

The PRI will not publish this report on its website if you have designated your 2020 climate reporting as “private”. Otherwise, you will be able to access the Climate Transparency Report of your organisation and that of other signatories on the [PRI website](#) and on the [Data Portal](#).

To easily locate information, there is a **Recommendation index** which summarises the indicators that signatories complete and disclose. The report presents information exactly as it was reported as per signatory preference. Where an indicator offers a response option that is multiple-choice, all options that were available to the signatory are presented in this report.

# TCFD Recommendations Index

Strategy and Governance - CC			TCFD Recommendation			
Indicator	Reported	Disclosure	Governance	Strategy	Risk Management	Metrics & Targets
SG 01.6 CC	✓	Public				
SG 01.7 CC	✓	Public				
SG 01.8 CC	✓	Public				
SG 01.9 CC	✓	Public				
SG 01.10 CC	✓	Public				
SG 07.5 CC	✓	Public				
SG 07.6 CC	-	Public				
SG 07.7 CC	✓	Public				
SG 07.8 CC	-	Public				
SG 13.1	✓	Public				
SG 13.2	-	Public				
SG 13.4 CC	-					
SG 13.5 CC	-					
SG 13.6 CC	-					
SG 13.7 CC	-					
SG 13.8 CC	-					
SG 14.1	✓	Public				
SG 14.2	✓	Public				
SG 14.3	✓	Public				
SG 14.6 CC	-	Public				
SG 14.7 CC	-	Public				
SG 14.8 CC	✓	Public				
SG 14.9 CC	✓	Public				
SG 15.1	✓	Public				
SG 15.2	✓	Public				
SG 15.3	✓	Public				

Symbol	Status
✓	The signatory has completed this sub-indicator
-	The signatory did not complete this sub-indicator.
	This indicator is relevant to the named TCFD recommendation
Within the first column "Indicator", indicators marked in blue are mandatory to complete. Indicators marked in grey are voluntary to complete.	

# ORGANISATIONAL OVERVIEW

This section provides an overview of your organisation. These characteristics are used to define your peer groups.

MAIN CHARACTERISTICS	
<b>Name</b>	AQR Capital Management
<b>Signatory Category</b>	Fund Management - Majority
<b>Signatory Type</b>	Investment Manager
<b>Size</b>	US\$ > 50 billion AUM
<b>Main Asset Class</b>	>50% Listed Equity Internally Managed
<b>Signed PRI Initiative</b>	2014
<b>Region</b>	North America
<b>Country</b>	United States
<b>Disclosure of Voluntary Indicators</b>	90% from 38 Voluntary indicators

# AQR Capital Management

## Reported Information

### Public version

### Strategy and Governance

## PRI disclaimer

This document presents information reported directly by signatories. This information has not been audited by the PRI Secretariat or any other party acting on their behalf. While this information is believed to be reliable, no representations or warranties are made as to the accuracy of the information presented, and no responsibility or liability can be accepted for any error or omission.

## Investment policy

SG 01	Mandatory	Public	Core Assessed	General
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**New selection options have been added to this indicator. Please review your prefilled responses carefully.**

SG 01.1	Indicate if you have an investment policy that covers your responsible investment approach.
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SG 01 CC	Mandatory to Report Voluntary to Disclose	Public	Descriptive	General
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SG 01.6 CC	Indicate whether your organisation has identified transition and physical climate-related risks and opportunities and factored this into the investment strategies and products, within the organisation's investment time horizon.
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Yes

Describe the identified transition and physical climate-related risks and opportunities and how they have been factored into the investment strategies/products.
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Our current approach to carbon-aware investing does not consider these risks separately; rather, for climate-related portfolios, we incorporate carbon intensity into our portfolio construction as a constraint. Some of these portfolios also incorporate other climate-related goals, for example constraining the portfolio's exposure to carbon reserves.

Typically, improving a portfolio's climate profile does not entail significant impacts to risk/return profile or diversification properties. This is because carbon footprint, measured at the overall portfolio level, can be incorporated into portfolio construction in a more nuanced manner than a simple screen.

Intuitively, measures such as carbon intensity interact compatibly with a manager's investment view. That is, in order to deliver a low carbon footprint, we will of course avoid high-carbon stocks, but the specific stocks we avoid will depend on our investment view. For example, the portfolio will not include carbon-intensive stocks, or perhaps even whole industries, that are deemed tactically unattractive from the pure risk/return standpoint. At the same time, the portfolio may buy a higher-carbon stock that happens to be tactically attractive from the investment perspective - but the portfolio will manage these holdings such that its overall carbon footprint is below our carbon footprint target.

Of course there is an expected cost associated with reducing one's universe and breadth: for example, there may be times when stocks with such exposures are cheap, improving, and high quality, leading to a preferred positioning that may be at odds with the desired climate awareness of such portfolios. We explore this in our Q4 Alternative Thinking piece, "Responsible Asset Allocation: ESG in Portfolio Decisions" and 2019 paper "Responsible Investing: The ESG Efficient Frontier", both available on our ESG webpage, [aqr.com/esg](http://aqr.com/esg).

In addition to managing several carbon-aware portfolios and continuing to expand our offering as noted previously, we have an active "E"-related research agenda. As just two examples, in 2018 we undertook a research project on country-level carbon emissions as a potential investment signal; in 2019 we undertook a research project that looked at a range of environmental variables (e.g., the fraction of energy from renewable sources) as a potential investment signal.

We continue our active research agenda but do not have an alpha view on the question per se. Additionally, because we tend to look on a nearer-term horizon, we do not yet have a tactical investment view on the translation of climate change into underlying signals for companies' future prospects or current fundamental worth.

Perhaps a step toward bridging that gap is a paper co-authored last year by AQR's Head of Machine Learning, Bryan Kelly, entitled Hedging Climate Change News. Bryan and his co-authors proposed a dynamic hedging strategy for climate risk: tracking climate change news using natural language processing, and relating it to a company's "E" score using metrics from multiple data providers. Their approach did not show short-term outperformance, but promisingly demonstrated evidence for longer-term utility.

No

**SG 01.7  
CC**

Indicate whether the organisation has assessed the likelihood and impact of these climate risks?

Yes

Describe the associated timescales linked to these risks and opportunities.

AQR has assessed the likelihood and impact of these climate-related risks, and would observe that while they may be large, they are likely to manifest in the relatively longer-term, and are difficult to quantify in a way that would make them actionable for AQR strategies that tend to rebalance every few weeks and may hold a position for about a year.

No

**SG 01.8  
CC**

Indicate whether the organisation publicly supports the TCFD?

Yes

No

**SG 01.9  
CC**

Indicate whether there is an organisation-wide strategy in place to identify and manage material climate-related risks and opportunities.

Yes

Describe

AQR is a strong proponent of managing climate risk and increasing transparency around climate disclosure. We have significant firmwide commitments on this issue, including the fact that we offset 100% of our global carbon footprint internally and are signatories to both the Task Force on Climate-Related Financial Disclosure (TCFD) and the Carbon Disclosure Project (CDP). In fact, we actively target companies that are not meeting CDP's carbon data disclosure requirements along the lines recommended by TCFD, joining in a collective engagement with other CDP signatories to petition for increased disclosure.

Our firmwide commitment extends to research, too; we noted earlier having written on climate change beyond our in-house research agenda. For example, we have conducted research on the Inevitably Policy Response scenario, and how it might affect various of our strategies. We monitor carbon exposures as standard for our equity-related strategies.

No

**SG 1.10  
CC**

Indicate the documents and/or communications the organisation uses to publish TCFD disclosures.

- Public PRI Climate Transparency Report
- Annual financial filings
- Regular client reporting
- Member communications
- Other
- We currently do not publish TCFD disclosures

## Governance and human resources

SG 07 CC	Mandatory to Report Voluntary to Disclose	Public	Descriptive	General
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**SG 07.5 CC** Indicate the roles in the organisation that have oversight, accountability and/or management responsibilities for climate-related issues.

### Board members or trustees

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

### Chief Executive Officer (CEO), Chief Investment Officer (CIO), Chief Risk Officer (CRO), Investment Committee

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

### Other Chief-level staff or heads of departments

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

### Portfolio managers

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

### Investment analysts

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

### Dedicated responsible investment staff

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues



**Investor relations**

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

**External managers or service providers**

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

**SG 07.7  
CC** For management-level roles that assess and manage climate-related issues, provide further information on the structure and processes involved.

Our ESG in the Office Committee is mainly comprised of colleagues from our Facilities and Operational Risk teams, and is responsible for bringing together employees from across the firm to develop initiatives which aim to enhance and promote our firm's efforts around ESG (particularly "E"-related) issues in our own business practices. This Committee, like our other ESG sub-committees, reports to our ESG Steering Committee. The group has implemented several notable ESG objectives, ranging from reducing the consumption of single-use non-recyclable material to reducing our carbon footprint. Specific to the latter, we have begun annually aggregating total electricity usage from all of our global offices and purchasing renewable energy certificates (RECs) to offset electricity consumption.

We consider our carbon footprint in terms of flights as well as electricity consumption, and purchased offsets for our air travel carbon footprint in 2019. This was calculated by aggregating the estimated carbon emission of every corporate flight taken over the period - taking into consideration journey, type of plane, and class of travel. We have partnered with 3Degrees, a global leader in clean energy consulting, for the purchase of our RECs and carbon offsets, since 3Degrees has certified carbon reduction projects. In fact, our carbon offsets are supporting a landfill gas capture project in New Hampshire, USA.

AQR also has an Operational Risk and Control team responsible for managing a variety of environmental hazards. The team is responsible for conducting risk and control self-assessments to identify and rank key risks and mitigate those risks by fortifying key controls. Risk self-assessments are an ongoing part of the control framework. Additionally, the team is responsible for identifying risks, threats, and vulnerabilities that could impact an entity's continued operations in relation to the Business Continuity and Disaster Recovery Program.

Lastly, AQR's facilities team is responsible for managing and monitoring any water, cooling, heating or fire-related issues specific to AQR's buildings.

**ESG issues in asset allocation**

SG 13	Mandatory	Public	Descriptive	PRI 1
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**SG 13.1** Indicate whether the organisation carries out scenario analysis and/or modelling, and if it does, provide a description of the scenario analysis (by asset class, sector, strategic asset allocation, etc.).

- Yes, in order to assess future ESG factors
- Yes, in order to assess future climate-related risks and opportunities
- No, our organisation does not currently carry out scenario analysis and/or modelling

**SG 13.3**

Additional information. [OPTIONAL]

AQR may undertake internal research projects, modelling and scenario analysis, etc. in anticipation of or in response to concrete risk events or changes in the expected risk environment, however, we do not specifically do so for climate risks.

Additionally, the Firm does not offer strategic asset allocation to clients, but rather offers partnership relationships with our clients to structurally help and guide them in setting up internal tactical asset allocation processes. AQR has participated in and catalyzed the shift toward risk-based asset allocation and the demystification of hedge fund and active equity returns. We believe that the knowledge and experience of our people represents a valuable resource for our partners.

<b>SG 14</b>	<b>Mandatory to Report Voluntary to Disclose</b>	<b>Public</b>	<b>Additional Assessed</b>	<b>PRI 1</b>
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**SG 14.1** Some investment risks and opportunities arise as a result of long term trends. Indicate which of the following are considered.

- Changing demographics
- Climate change
- Resource scarcity
- Technological developments
- Other, specify(1)
- Other, specify(2)
- None of the above

**SG 14.2** Indicate which of the following activities you have undertaken to respond to climate change risk and opportunity

- Established a climate change sensitive or climate change integrated asset allocation strategy
- Targeted low carbon or climate resilient investments

Specify the AUM invested in low carbon and climate resilient portfolios, funds, strategies or asset classes.

	trillions	billions	millions	thousands	hundreds
Total AUM		10	000	000	000
Currency	USD				
Assets in USD		10	000	000	000

Specify the framework or taxonomy used.

AQR works with clients to incorporate carbon intensity reductions into their long-only equity portfolios. We implement these based on TruCost data.

- Phase out your investments in your fossil fuel holdings
- Reduced portfolio exposure to emissions intensive or fossil fuel holdings
- Used emissions data or analysis to inform investment decision making
- Sought climate change integration by companies
- Sought climate supportive policy from governments
- Other, specify
- None of the above

**SG 14.3**

Indicate which of the following tools the organisation uses to manage climate-related risks and opportunities.

- Scenario analysis
- Disclosures on emissions risks to clients/trustees/management/beneficiaries
- Climate-related targets
- Encouraging internal and/or external portfolio managers to monitor emissions risks
- Emissions-risk monitoring and reporting are formalised into contracts when appointing managers
- Weighted average carbon intensity
- Carbon footprint (scope 1 and 2)
- Portfolio carbon footprint
- Total carbon emissions
- Carbon intensity
- Exposure to carbon-related assets
- Other emissions metrics
- Other, specify

other description

Exposure to fossil fuel-related stocks, for example stocks with carbon reserves.

- None of the above

**SG 14 CC**

**Voluntary**

**Public**

**General**

**SG 14.6  
CC**

Provide further details on the key metric(s) used to assess climate-related risks and opportunities.

Metric Type	Coverage	Purpose	Metric Unit	Metric Methodology
<b>Climate-related targets</b>	<input type="checkbox"/> All assets <input type="checkbox"/> Majority of assets <input type="checkbox"/> Minority of assets			
<b>Carbon intensity</b>	<input type="checkbox"/> All assets <input type="checkbox"/> Majority of assets <input type="checkbox"/> Minority of assets			

<b>SG 14.7 CC</b>	Describe in further detail the key targets.
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Targettype	Baseline year	Target year	Description	Attachments
<input type="checkbox"/> Absolute target <input type="checkbox"/> Intensity target				
<input type="checkbox"/> Absolute target <input type="checkbox"/> Intensity target				
<input type="checkbox"/> Absolute target <input type="checkbox"/> Intensity target				
<input type="checkbox"/> Absolute target <input type="checkbox"/> Intensity target				
<input type="checkbox"/> Absolute target <input type="checkbox"/> Intensity target				

<b>SG 14.8 CC</b>	Indicate whether climate-related risks are integrated into overall risk management and explain the risk management processes used for identifying, assessing and managing climate-related risks.
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- Processes for climate-related risks are integrated into overall risk management

Please describe
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AQR has worked with several clients to implement portfolios that seek to reduce carbon exposure compared to the benchmark and has done related research on various data sources with the aim to help clients determine how best to meet their objectives. Additionally, within our Sustainable strategies, we explicitly incorporate ESG considerations in portfolio construction using MSCI ESG ratings, a data set that specifically considers environmental risks.

We track and assess the carbon exposures of all AQR stock selection portfolios on a monthly basis.

- Processes for climate-related risks are not integrated into overall risk management

<b>SG 14.9 CC</b>	Indicate whether your organisation, and/or external investment manager or service providers acting on your behalf, undertake active ownership activities to encourage TCFD adoption.
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- Yes

Please describe

We both vote and engage on climate-related matters. AQR's engagement is done at the firm level to marshal the full resources of our aggregate holdings across all portfolios, and is focused on ESG and transparency: it is our fervent belief that greater transparency, particularly with regard to ESG issues, is a positive outcome for all market participants and will lead to better alignment between companies and their investor base and more accurate pricing of ESG risks and opportunities.

AQR is a strong proponent of managing climate risk and increasing transparency around climate disclosure. Our firmwide commitments on this issue is evident in the fact that we offset 100% of our global carbon footprint internally and are signatories to both the Task Force on Climate-Related Financial Disclosure (TCFD) and the Carbon Disclosure Project (CDP). Moreover we actively target companies that are not meeting CDP's carbon data disclosure requirements along the lines recommended by TCFD, joining in a collective engagement with other CDP signatories to petition for increased disclosure. We have also written on this topic in the paper "Hedging Climate Change News," available at [www.aqr.com/ESG](http://www.aqr.com/ESG).

Moreover, AQR has an ESG Company Monitor, a program we have built using various ESG data sources to cross-reference where problematic ESG exposures occur in our largest stock holdings of individual companies. For the 20 largest positions with current ESG concerns, AQR will seek to engage in a dialogue with company management to better understand the related ESG risks and encourage greater transparency on these issues to the market.

Beyond proactive direct engagement, we also engage directly on a reactive basis, i.e. selective engagement with portfolio company management on upcoming proxy issues where underlying firms seek out AQR to present issues which may be material for the vote.

In terms of proxy voting, where clients have delegated proxy voting to AQR, we seek to align our voting with long-term value creation, including on ESG issues. In 2019, AQR supported 36% of shareholder proposals on ESG issues, as opposed to company management supporting only 2% of the same.

We use ISS' Sustainability proxy voting policy for all of our private commingled funds and for our default vote-handling program, but also leverage internal proprietary research on proxy issues related to significant corporate actions in making individual voting decisions.

Specific to climate change, the current policy generally votes in favor of proposals seeking more disclosure about the risks a company faces related to climate change, and in favor of proposals to reduce greenhouse gas emissions. Transparency is a primary focus for our stewardship activities in both engagement and proxy voting.

- No, we do not undertake active ownership activities.
- No, we do not undertake active ownership activities to encourage TCFD adoption.

SG 15	Mandatory to Report Voluntary to Disclose	Public	Descriptive	PRI 1
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**SG 15.1** Indicate if your organisation allocates assets to, or manages, funds based on specific environmental and social themed areas.

- Yes

**SG 15.2** Indicate the percentage of your total AUM invested in environmental and social themed areas.

%

5

**SG 15.3** Specify which thematic area(s) you invest in, indicate the percentage of your AUM in the particular asset class and provide a brief description.

Area

- Energy efficiency / Clean technology
- Renewable energy
- Green buildings
- Sustainable forestry
- Sustainable agriculture
- Microfinance
- SME financing
- Social enterprise / community investing
- Affordable housing
- Education
- Global health
- Water
- Other area, specify

Climate risk

Asset class invested

- Listed equity

Percentage of AUM (+/-5%) per asset class invested in the area

10

- Fixed income - SSA
- Fixed income - Corporate (financial)
- Fixed income - Corporate (non-financial)
- Fixed income - Securitised
- Hedge funds

Brief description and measures of investment

We actively monitor and manage the carbon intensity of our Carbon-Aware portfolios. Several portfolios have been informed by client-specific objectives, for example reducing carbon intensity by a certain percentage against a benchmark.

No