



# Annual ESG Report

2023



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# 2023 in Review

2023 marked the twenty fifth anniversary of AQR, a milestone that sparked some reflection and a great deal of gratitude.

In looking back, one of the things that has set our firm apart was our long-standing belief in publishing research to help investors make more informed decisions, and this very much applies to our approach to ESG. We were early (2009 was early!), prolific and committed to bringing clarity to the complex world of responsible investing through our research. We didn't shy away from wading into the discourse, even when our perspective wasn't popular or well-received. Our pursuit for truth has always won out, and I truly feel good about that.

My co-founders and I are proud to have created a firm with a relentless dedication to our clients. Investors have different ESG needs and preferences, and we, as fiduciaries, continue to develop innovative solutions to help our clients meet their objectives.

It was long thought that quants like us couldn't be responsible owners. Yet, we've continued to dispel that belief by building a robust stewardship program based in transparency. Pursuing better data supports our clients, no matter how much their goals vary.

While our oldest ESG investment signals date back to our launch in 1998, I don't think any of us could have predicted back then that ~20% of our firmwide AUM today would be in dedicated ESG portfolios.<sup>1</sup> For that, we are grateful to our clients. Over the years, we've learned just as much from you as you have from us. Thank you for your continued partnership, for your belief in our process, and for entrusting us with your investments.

## **Cliff Asness**

Managing and Founding Principal

<sup>1</sup>As of 12/31/2023, AQR managed ~\$20 billion in dedicated ESG solutions, designed in service of our clients' ESG-related objectives. Our standard Sustainable process seeks to avoid companies with the largest ESG risk exposures by imposing static and dynamic exclusions, targets an overall improvement in ESG profile and a carbon reduction. These goals are achieved vs. a benchmark in applicable portfolios or, where shorting is utilized, on the long side vs. the short.

# 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. We offer diversified strategies across long-only and relaxed constraint equity, total and absolute return alternatives, and dedicated ESG solutions within each of those categories.<sup>2</sup>

~\$99 Billion<sup>3</sup>

in AUM and ~20% of  
firmwide AUM in dedicated  
ESG portfolios<sup>4</sup>

309

Direct engagements  
conducted with  
portfolio companies

7 Consecutive Years<sup>5</sup>

As a P&I “Best Place to Work” in  
Money Management, a recognition  
based on an employee survey,  
firm benefits and culture

5 Consecutive Years<sup>6</sup>

Earning a perfect score on  
HRC's Corporate Equality Index,  
earning a 2023 “Equality 100 Award:  
Leader in LGBTQ+ Workplace Inclusion.”

<sup>2</sup> Source: AQR. Information as of December 31, 2023. Diversification does not eliminate the risk of experiencing investment losses.

<sup>3</sup> AUM data includes assets managed by AQR and advisory affiliates.

<sup>4</sup> As of 12/31/2023, AQR managed ~\$20 billion in dedicated ESG solutions, designed in service of our clients' ESG-related objectives. Our standard Sustainable process seeks to avoid companies with the largest ESG risk exposures by imposing static and dynamic exclusions, targets an overall improvement in ESG profile and a carbon reduction. These goals are achieved vs. a benchmark in applicable portfolios or, where shorting is utilized, on the long side vs. the short.

<sup>5</sup> For seven years in a row, AQR was named one of Pensions and Investments' Best Places to Work in Money Management in 2017, 2018, 2019, 2020, 2021, 2022 and 2023

<sup>6</sup> The Human Rights Campaign named AQR a 2019, 2020, 2021, 2022 and 2023 Best Place to Work for LGBTQ Equality

# ESG Philosophy

We are committed to fulfilling our fiduciary obligations and to helping our clients achieve their ESG goals. Our ESG philosophy, detailed here, was first affirmed in 2013. AQR seeks to:

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

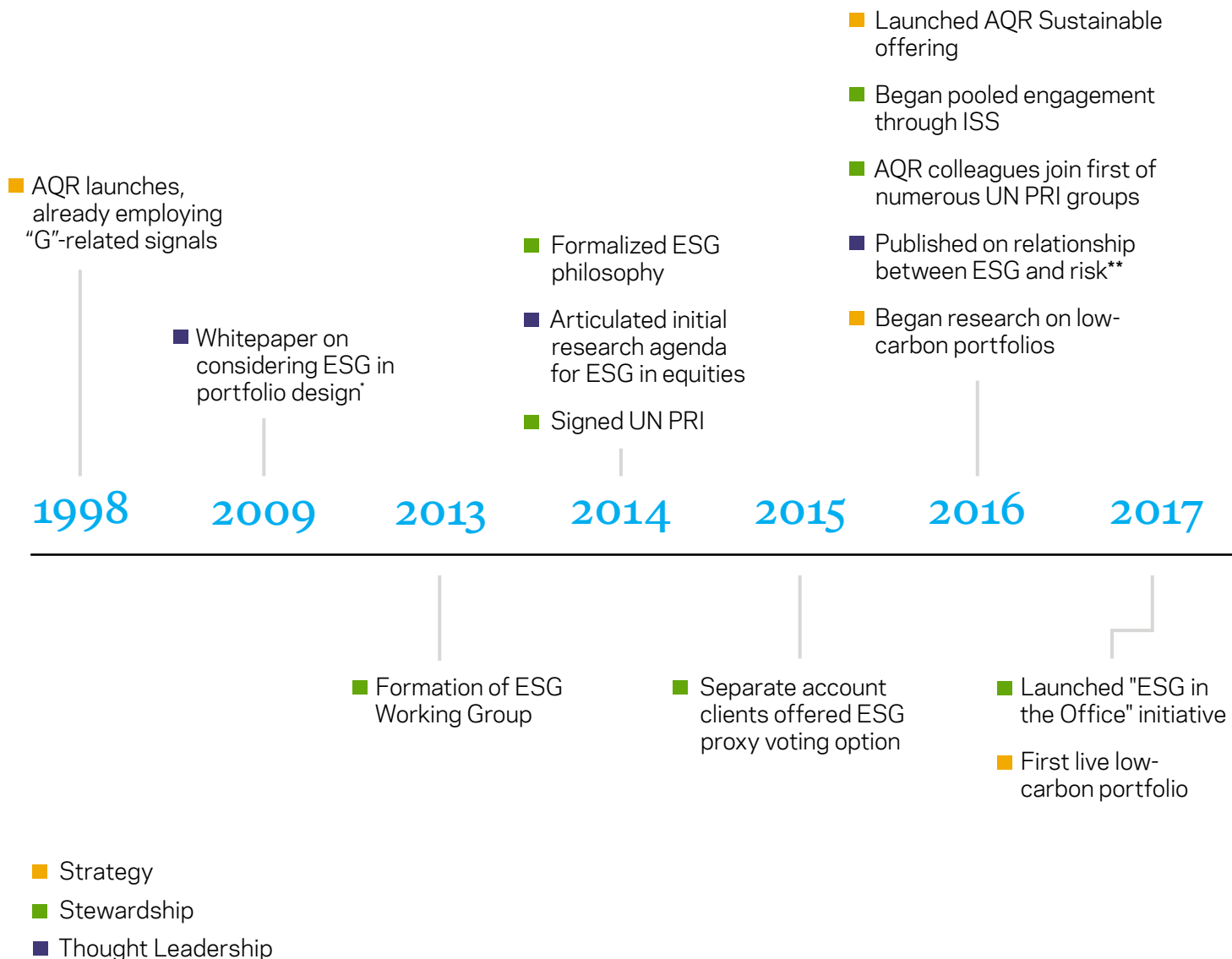
**Incorporate ESG** investment ideas **on an equal footing** with other investment ideas, to the extent they improve portfolio risk or return characteristics.

**Be a responsible steward** of our clients' investments, striving to create long-term value for clients without compromising on our core values.

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

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

# Our ESG Journey



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

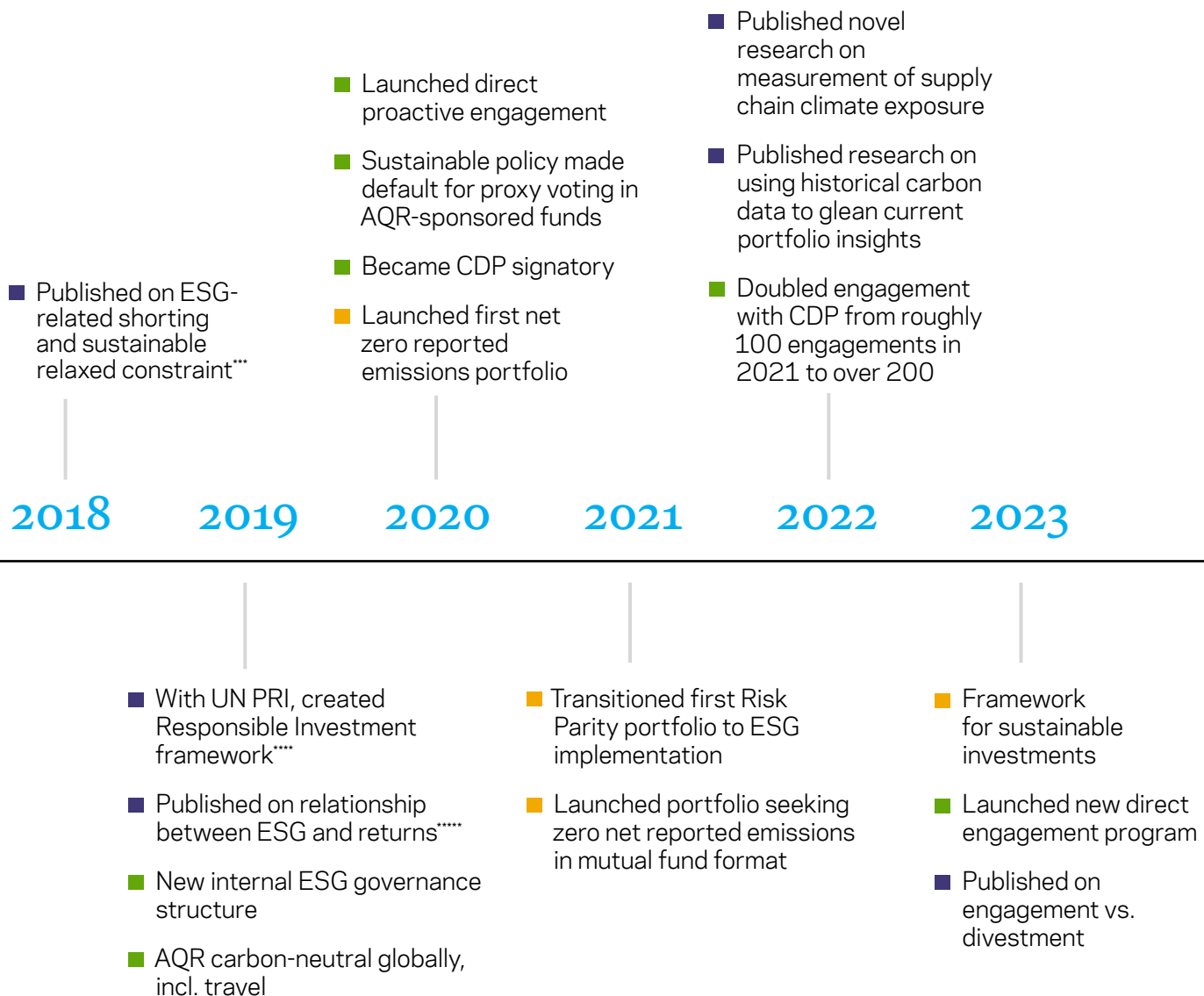
\*\* "Assessing Risk through Environmental, Social and Governance Exposures" - Dec. 2016 (Journal of Investment Management: Vol. 16, No. 1, 2018)

\*\*\* "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.



# ESG Governance Structure and Resources

## Executive Committee

Management and oversight of AQR's ESG agenda ultimately rests with the firm's Executive Committee. The Executive Committee serves as the firm's key governance function across business areas and is led by AQR's founders and principals from multiple business areas. AQR has three ESG Committees responsible for coordinating execution of the firm's ESG agenda: ESG Research, Stewardship, and ESG Reporting and Communication.

## ESG Committees

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### ESG Research

Responsible for setting direction of ESG research agenda and collaborating on projects across research teams.

### ESG Stewardship

Responsible for overall approach toward engagement with portfolio companies, the broader investment community, and regulators as well as oversight of proxy voting.

### ESG Reporting and Communication

Responsible for ESG-related content shared internally and externally, including marketing collateral and reporting.

Source: AQR.

# Our ESG Program

## 2023 at a Glance

**\$4+** billion<sup>7</sup> = **\$1+** billion + **\$3+** billion

AUM Launched, Converted, or Enhanced with Dedicated ESG Implementations

Converted to Dedicated ESG Implementations Reflecting Clients Needs

of Accounts with Existing ESG Customizations Converted to Follow EU Climate Benchmarks Based on Client Need

**~\$1.9** billion

AUM of In-Scope Funds for Development of Framework for Sustainable Investments Specific to European Investors

**7+**

Years Managing Dedicated ESG Assets

**~80%**<sup>8</sup>

of AUM Integrating ESG-Related Signals

**0** tons<sup>\*9</sup>

Net Carbon Footprint in Firm Operations Through Purchase of Carbon Offsets

**300+**

Direct Engagements Conducted with Portfolio Companies

Source: AQR, Climate Impact Partners. AUM is approximate as of 12/31/2022, includes assets managed by AQR and its advisory affiliates  
<sup>7</sup> As of 12/31/2023, AQR managed ~\$20 billion in dedicated ESG solutions, designed in service of our clients' ESG-related objectives. Our standard Sustainable process seeks to avoid companies with the largest ESG risk exposures by imposing static and dynamic exclusions, targets an overall improvement in ESG profile and a carbon reduction. These goals are achieved vs. a benchmark in applicable portfolios or, where shorting is utilized, on the long side vs. the short.

<sup>8</sup> ~80% of AQR's assets under management integrated ESG-related alpha or risk signals. We include ESG-related signals in our multi-factor security selection models as standard, and have since AQR's inception; in all portfolios, we will incorporate ESG to the extent that we believe it improves the risk/return profile, consistent with our research on the ESG-efficient frontier.

<sup>9</sup> CarbonNeutral® certification is issued by Natural Capital Partners and is based on a protocol updated annually to reflect developments in climate science, international policy, standards and business practice. View the latest protocol here.

\*(2/2023-2/2024)

# Spotlight on Thought Leadership: How Portfolios Can Impact the Real Economy

2023 saw us undertake new research on how investors can affect the direction of corporate decision making. We analyzed the two channels of influence we believe to be first order in how investors can have impact: 1) direct control and 2) portfolio positioning that changes companies' costs of capital. These are not mutually exclusive, and investors may find roles for each in their approaches. This wedds responsible asset selection and responsible ownership.

Voting is an obvious example of exercising control. It may not be as impactful in practice for all companies. For instance, in companies where management holds a majority of stock, voting by minority shareholders may be an instrument through which other investor preferences are communicated to the board and the management, but this may not be enough for the company to change its corporate policies. Engagement by shareholders can be impactful too, and this exercise of control can be used for a variety of purposes. AQR uses its shareholdings to engage with companies that do not disclose sustainability-related data we deem pertinent to the investment process, for example; others use their shareholdings to engage with companies on target-setting or for clarity on progress.

Impact is not an either-or proposition -- financing costs exist as a parallel channel for impact. A key role of financial markets is to enable businesses to raise capital. Financing costs (also known as the "cost of capital") are market-determined and based on investor preferences and activity. They are inextricably linked to the price of an issuer's securities: the





lower the price, the higher the cost of capital. Thus, any and all investor actions that influence prices also influence the issuer's cost of capital and its ability to invest in projects and fund ongoing operations.

Financing costs are an instrument of impact because they are a key input in companies' strategic investment and financing plans. Investors who want to stimulate an economic activity can do so by helping lower a portfolio company's financing cost, which leads to increased investment and higher growth for that company. Conversely, increasing the financing costs of the firms believed to produce negative externalities prevents them from taking on as many projects—or, at the extreme, from growing at all.

In the primary market, investors' decisions to increase their participation, or to shun a new offering, immediately translate into how costly it is for the issuer to meet its financing needs. Prices in the secondary market are equally important: capital budgeting depends on what the price is today, not on what it was at some past time when the firm issued a new security. Moreover, financing costs help resolve the often-debated question of whether derivative instruments have any impact. They do, because they can influence the current price of a company's securities, with derivative and spot markets tightly linked.

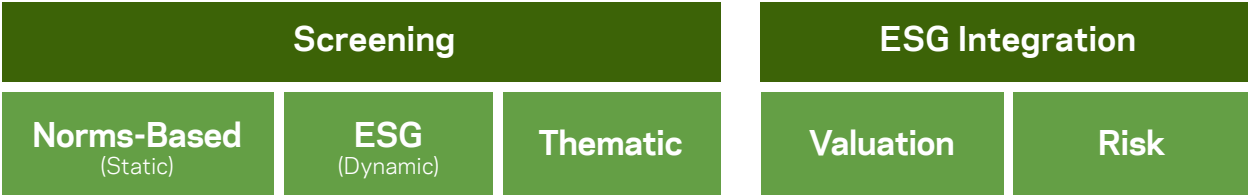
As such, cost of capital consequences can come from divestment, but also from the use of shorting. Shorting allows for a fuller expression of an investor's view and is a powerful tool for hedging exposure to potential ESG-related risks. When it comes to financing costs, divestment and shorting are equivalent in that they both may depress the price, and hence increase the cost of capital for the issuer. While short and long equity positions are different in their influence on corporate control (shorts have none), they are equal in their potential impact on cost of capital.

# Our ESG Approach

AQR collaborated with the UN PRI to develop a framework for responsible investment in 2019:

## Responsible Investment =

### Responsible Asset Selection



### 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. What are ESG issues? Rather than simply spelling out environmental, social, and governance, terms which themselves do not contain definitions, we propose the following three-pronged explanation:

- ESG is an umbrella term that captures information that may predict returns
- ESG may proxy for long-term risks not always captured by traditional risk models
- ESG is often incorporated to reflect normative views and/or a desire for impact

Responsible ownership, also termed stewardship, is a thoughtful awareness of the avenues to interact with companies to influence their business priorities and disclosure.

The following discussion of our ESG program aligns with this distinction and details our progress on both halves, adding to them a third critical business pillar: corporate social responsibility.

## Responsible Asset Selection

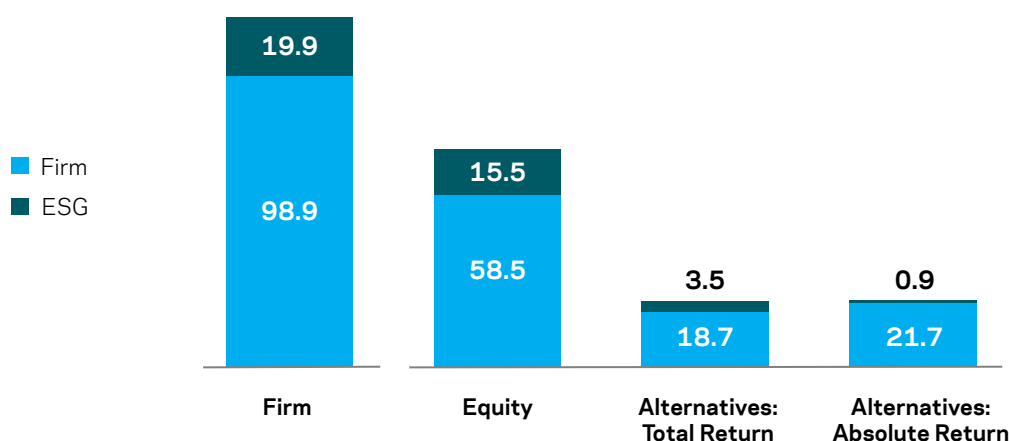
As of the end of 2023, AQR managed approximately \$99 billion, ~80% of which includes ESG-related investment signals.<sup>10</sup> This is consistent with our [research](#) on the importance of ESG information for assessing company fundamentals: we utilize ESG-related considerations as standard to the extent that they are expected to improve risk or return characteristics. This differs across E, S, and G-related signals. AQR has utilized G-related signals since the firm’s inception in 1998, and most of our ESG-related alpha signals are G-related. E- and S-related signals feature across different security selection models. The E, S, and G-related signals that AQR uses are subject to the same research, implementation, and oversight processes as non-ESG-related information.

AQR begins 2024 managing ~\$20 billion in dedicated ESG strategies.<sup>11</sup> These strategies share investment philosophies, processes, and teams with their “standard” implementations;

we do not manage separate wholly thematic strategies. Rather, dedicated ESG solutions apply explicit sustainability objectives alongside standard investment objectives. We offer these in customized implementations designed in service of clients’ specific ESG objectives, and in commingled format for groups of investors with similar preferences.

Portfolios managed according to our standard sustainable process target carbon reductions versus a benchmark in long-only accounts and zero net carbon exposure in portfolios that use shorting, avoid companies with the largest ESG risk exposures by imposing a series of exclusions, and target an improvement in portfolio ESG profile. In relaxed constraint and alternatives portfolios, we may actively short the worst ESG offenders. We currently apply this process in standalone long-only, total return and absolute return equity portfolios, as well as in the equity sleeves of multi-strategy total return and absolute return portfolios.

Dedicated ESG Assets by Strategy Type (in \$B)



Source: AQR. Approximate as of 12/31/2023, includes assets managed by AQR and its advisory affiliates.

<sup>10</sup> ~80% of AQR’s assets under management integrated ESG-related alpha or risk signals. We include ESG-related signals in our multi-factor security selection models as standard, and have since AQR’s inception; in all portfolios, we will incorporate ESG to the extent that we believe it improves the risk/return profile, consistent with our research on the ESG-efficient frontier.

<sup>11</sup> As of 12/31/2023, AQR managed ~\$20 billion in dedicated ESG solutions, designed in service of our clients’ ESG-related objectives. Our standard Sustainable process seeks to avoid companies with the largest ESG risk exposures by imposing static and dynamic exclusions, targets an overall improvement in ESG profile and a carbon reduction. These goals are achieved vs. a benchmark in applicable portfolios or, where shorting is utilized, on the long side vs. the short.

In 2023, we continued to expand our range of dedicated ESG solutions based on client need. This included converting portfolios that previously had not had any ESG objectives to our sustainable process, both for individual clients and in commingled fund format. We converted our second risk parity portfolio to include ESG objectives; these are currently applied in equities, but in 2023 we laid the foundations for a future extension of ESG investing to sovereign bonds.

We observed a modest shift toward the use of the EU climate benchmarks, and indeed 75% of our ESG-related conversions this year by AUM were in accounts now using either the Climate Transition Benchmark or the Paris-Aligned Benchmark. Investors had shifted to these benchmarks as their standard performance benchmarks in some cases, dictating new and truncated investment universes.

As a quantitative manager, we are active in exploring new data sets and began applying new metrics for specific client customizations -- for example, Science-Based Targets and low carbon transition scores. We continued engaging with data providers on improving the quality and the informativeness of their data; in fact, the next section on Responsible Ownership introduces a strand of data provider engagement we began to undertake with novel stewardship efforts last year.

Another key achievement in 2023 was the development of a framework for SFDR-aligned sustainable investments to use in our Sustainable-named UCITS funds. Our framework tests for business processes aligned with climate change mitigation, coupled with an assessment of significant harm.

Finally, extending our thought leadership on the cost of capital, AQR's Lasse Pedersen published a new paper, [Carbon Pricing versus Green Finance](#), which was recognized with the [Swiss Finance Institute's Outstanding Paper Award 2023](#). Selected by the Swiss Finance Institute's college of chairs, the annual prize distinguishes an unpublished research paper expected to make an outstanding contribution to the field of finance. In the paper, Lasse constructs a model for green finance efforts, including regulation, and carbon pricing, arguing that the most effective tool is a carbon tax, but in its absence, green finance can be a useful alternative intervention. The distinction between disclosure-focused regulation and regulation that imposes taxonomies or other hierarchies has so far been an important one; with the advent of more comprehensive reporting in the coming years, it may blur.



## 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 efforts cover a range of activities, including:

- | Voting our proxies in an ESG-aware manner as the default approach for commingled funds
- | Engaging directly with management of companies where AQR may have an impact
- | Collaborating with other investors to engage companies on issues of concern
- | Participating in industry groups or bodies that advocate for greater disclosure

AQR's Engagement Policy and Proxy Voting Policy are publicly available on [AQR.com/ESG](https://www.aqr.com/ESG).

We work within the industry to advance the collective ESG effort and continuously look for opportunities to collaboratively engage with peers. AQR is an active participant in industry discussions across the spectrum of ESG-related issues. In 2023, AQR colleagues served on numerous industry ESG working groups, including MFA, ICI, and the Investment Association, as well as multiple UN PRI committees. We also engaged in regulatory consultations across the US, UK, and EU through our participation in these bodies.

## Engagements

AQR's Stewardship Committee is responsible for overseeing and executing our engagements. AQR has conducted direct engagements with companies since 2019. Our engagement strategy is grounded in transparency. 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.

To identify candidates for engagement, AQR will consider the size of a holding in an issuer across all AQR-managed portfolios. We engage as a firm, as opposed to tailoring engagement to specific portfolios. As a systematic asset manager with a focus on liquid, diversified strategies, AQR will typically hold positions across many issuers, industries, and geographies. Dialogue with companies is not a standard part of our investment process, which is instead quantitative, based on fundamentals that sometimes include ESG considerations. Therefore, we prioritize engagement efforts where we believe we can maximize impact. This is also consistent with the thought leadership highlighted earlier.

In 2023, we introduced a new mode of direct engagement after the commitment we made in our 2022 ESG annual report: engaging with companies to improve their transparency to financial markets on specific issues salient to the investment process. We began with the disclosure of scope 1 and 2 emissions. This built on the new alpha signal we explored in the 2022 ESG annual report: while our models leverage many themes and metrics to determine portfolio construction, we use certain emissions information in our proprietary security selection models and additionally view it as attractive from an ESG lens.

AQR reviews our data sets for emissions, identifying companies that are identified as failing to disclose scope 1 and 2 information. We then cross-check this company list against the companies' own reporting. This introduced functionally a sub-engagement program, where we refer our data provider to the list of companies for which they estimate data, but where we deem the company to have comprehensive corporate sustainability reporting. We have seen consistent data enhancements: typically, the provider deems some of the companies as still reporting inadequately, while updating the rest in their data sets. We are proud to support the enhancement of data sets used not just by AQR, but by many other industry participants, including our clients.

This program is nascent. We targeted 20 companies in 2023. Some companies had already planned to commence disclosure or to upgrade it in line with our requests. We received feedback from three companies that they plan to introduce entirely new emissions disclosure in 2024, and we will be continuing the dialogue accordingly. Other companies were reluctant to commit to a timeline, preferring to defer the decision until regulation makes it for them (either the proposed SEC rules in the United States or the advent of CSRD in Europe).

Engagements may be conducted directly by AQR on behalf of industry initiatives, again with the goal of improving disclosure. Notably, we identify other engagement targets and help to advance the collective ESG effort through active participation in systematic investor-led initiatives like the CDP Non-Disclosure Campaign. 2023 was AQR's fourth year of participation in the "NDC", and we engaged nearly 300 companies on behalf of the signatory base. The vast majority of AQR's dedicated ESG AUM integrates environmental objectives, harmonious with the CDP framework of climate change, water security, and deforestation.

We sent letters to some of our largest firmwide holdings requesting public disclosure of some combination of their climate, water, and forest data. Just under 20% of the companies we engaged successfully disclosed their environment-related data to CDP. This is a lower rate than we achieved in prior years. We think it is important to acknowledge this, and our Stewardship Committee reviewed this outcome to reflect on trends and any potential changes for 2024 when we plan to participate once more. As we saw in our direct engagements, many companies are eschewing participation in voluntary disclosure frameworks while they either await new rules in the U.S. or prepare for intensified requirements in Europe. This is especially true for American companies, but we heard similar feedback globally. 2024 may be too soon for companies to react to recently approved California disclosure rules or for the widespread adoption of ISSB disclosure standards. However, the CDP framework is anticipated to adapt accordingly, to minimize the number of materially different disclosure frameworks in support of streamlined disclosure and acceptable minimum standards.

We continued to increase the number of companies engaged year-on-year, and this year we were once again the largest supporter of this campaign from the investment community.

We are pleased that CDP continues to recognize AQR's significant support of the Non-Disclosure Campaign, again featuring AQR's efforts and broader program in their recently published 2023 Non-Disclosure Campaign Results [Report](#).<sup>12</sup>

*“ 2023 marked AQR's fourth year of participation in the CDP Non-Disclosure Campaign. Our firmwide engagement program is focused on improving transparency in corporate reporting, which we believe supports investors by enabling more accurate pricing of ESG risks and opportunities by increasing the availability and quality of data needed for the management of sustainable portfolios. We engage both directly and collectively with companies to encourage better environmental data disclosure, and partnering with CDP allows us to utilize both approaches simultaneously. ”*

By successfully encouraging companies to disclose their carbon-related environmental data, we are not only improving the transparency they provide, but also enhancing both the breadth and the quality of data inputs we use in our own dedicated ESG portfolios, which represent ~\$20 billion in assets under management.<sup>13</sup>

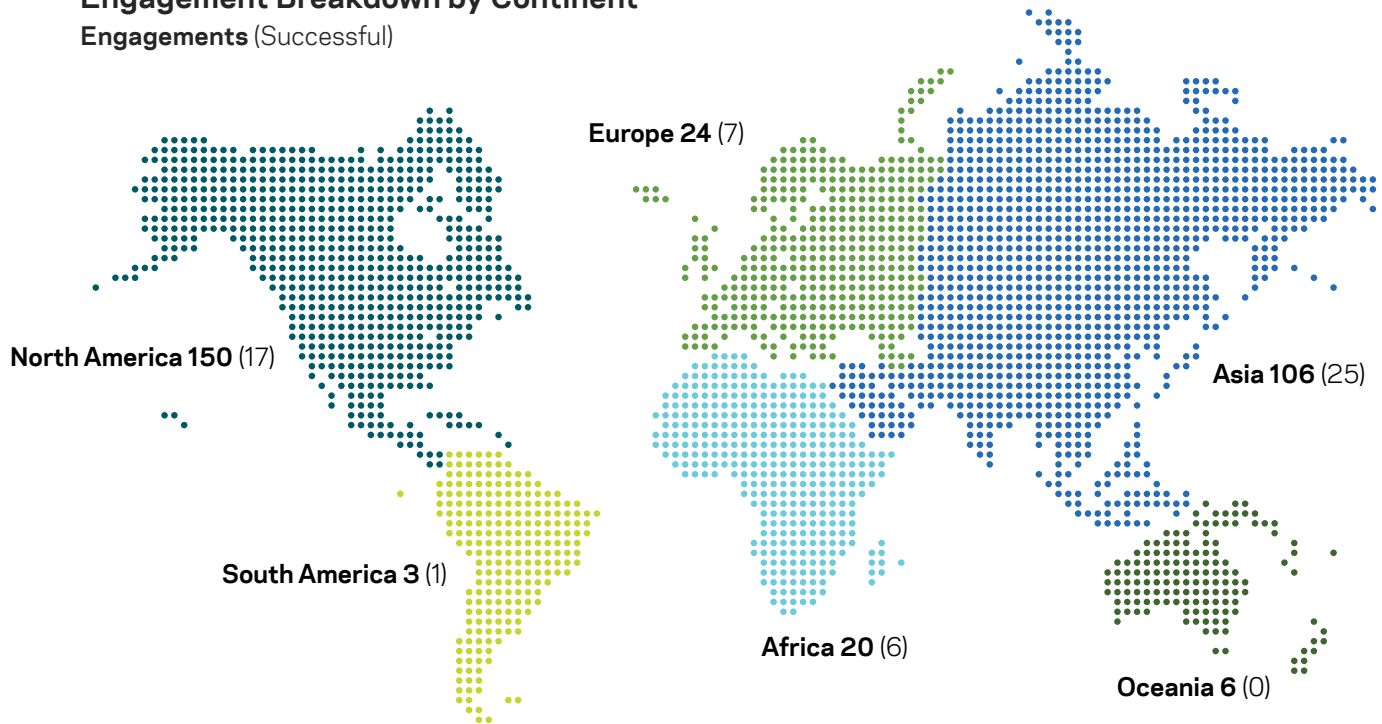
<sup>12</sup> Source: AQR, CDP.

<sup>13</sup> As of 12/31/2023, AQR managed ~\$20 billion in dedicated ESG solutions, designed in service of our clients' ESG-related objectives. Our standard Sustainable process seeks to avoid companies with the largest ESG risk exposures by imposing static and dynamic exclusions, targets an overall improvement in ESG profile and a carbon reduction. These goals are achieved vs. a benchmark in applicable portfolios or, where shorting is utilized, on the long side vs. the short.

# 2023 Engagements

## Engagement Breakdown by Continent

Engagements (Successful)

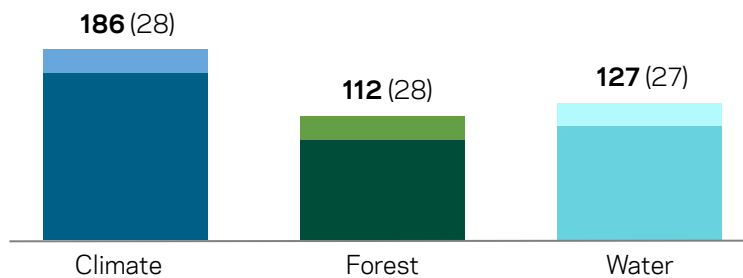


## Engagement Breakdown by Developed vs. Emerging



## Engagement Breakdown by Topic\*

Engagements (Successful)



\*116 Engagements that were on more than one topic are included in multiple categories

Source: AQR. AQR's engagements from January 1, 2023 to December 31, 2023

## Proxy Voting

AQR utilizes Institutional Governance Services (ISS), an independent third-party advisor, for a variety of proxy voting services. We maintain a relationship with Glass Lewis in the interest of continued due diligence and to enhance our proxy-related research capabilities.

Our portfolios tend to be highly diversified, often entailing many small positions across a wide range of companies and industries. We vote using recommendations from ISS and incorporating internal proprietary research to make informed decisions on individual votes. AQR's proxy voting is conducted in accordance with its public policy, responsibility for the implementation of which rests with our Stewardship Committee. The Stewardship Committee is responsible for oversight and use of third-party proxy advisers, the manner in which AQR votes its proxies, and meeting AQR's obligation to vote proxies in the best interest of its clients.

While AQR exercises its voting rights and also undertakes direct engagement, classed under "control" modes in the thought leadership highlighted earlier, it is important to distinguish this from the fact that AQR will not engage in conduct that involves an attempt to change or influence the specific control of a public company.

We seek to align our voting with long-term shareholder value creation, including on ESG issues. The voting patterns shown reflect our belief that, as a starting point, company leadership should be given leeway to determine what is in their companies' and shareholders' best interests.

In all AQR-sponsored funds, our default approach is to use a sustainable voting policy. We undertake periodic concerted engagement with our clients on their preferences. Based on the resulting insights, in 2023 we piloted an opt-in to a benchmark voting policy.

**7,553** Meetings Voted

**80,636** Ballots Voted

**89%** of Total Votes With Company Management

**12%** of Total Votes Against Company Management

Source: AQR, ISS. AQR seeks to cast votes for all of its portfolio companies, with the exception of those that are domiciled in markets where there are beneficial ownership disclosure and/or Power of Attorney requirements. Diversification does not eliminate the risk of experiencing investment losses.

# Corporate Social Responsibility

AQR promotes sustainability and social responsibility within our offices and our communities through a number of channels.

## ESG in the Office

Our ESG in the Office initiative was originated by employees in 2017, bringing together colleagues from across the firm to create a more sustainable workplace. The group has implemented several notable projects, including recycling educational programs for employees, and initiatives to reduce the consumption of single-use non-recyclable material throughout our offices. We continue to engage with building management across our office locations to make operations less environmentally intensive.

AQR has chosen to offset its emissions each year since 2019. We have been a CarbonNeutral® certified company since 2021.<sup>14</sup> Our assessment spans all offices globally, and we work with external providers to review our calculations and to purchase appropriate offsets. In 2023, AQR continued to work with Climate Impact Partners to calculate Scope 1, 2, and 3 emissions. We only consider upstream Scope 3 emissions; we do not consider downstream Scope 3 emissions, sometimes termed “financed emissions” an appropriate metric for our business, given the diversity of asset classes covered and our fiduciary duties.

## Diversity & Inclusion

Recognizing that our people are an important asset, AQR has a long-standing commitment to fostering an inclusive and supportive workplace. AQR's Diversity & Inclusion Committee is comprised of senior members of AQR and serves as a central point of governance and support for diversity and inclusion initiatives throughout the firm. Employee-led networks welcome, engage and support members of our AQR community and help to advance recruiting and retention. Our diversity initiatives include partnerships with organizations where our employees can dedicate their time volunteering. Examples of our volunteer programs include the Ali Forney Center, which helps homeless LGBTQ+ youth in New York City; Open Doors, a resource for housing stability in Norwalk, Connecticut; and Bundles of Joy, which provides essentials to new parents and babies in need in the New York area.

## Educational Programs

AQR's commitment to ESG thought leadership, innovation, and education is reflected in our employee educational programs. In the last annual ESG report, we set an intention to further internal education on the topic, and this year,

<sup>14</sup> CarbonNeutral® certification is issued by Climate Impact Partners and is based on a protocol updated annually to reflect developments in climate science, international policy, standards and business practice. View the latest protocol [here](#).

we welcomed the Climate Impact Partners team for a fireside chat with our employees to discuss the nuances of carbon offsetting, especially timely given enhanced scrutiny of the voluntary carbon market. We continue to seek out speakers on pertinent topics, and to support our employees in pursuing sustainability-related further education, consistent with our conviction in lifelong learning. AQR colleagues have undertaken industry certifications in ESG as well as longer programs of study.

We provide client teams with regular updates on ESG developments. Additionally, we hosted a series of year-end roundtables with business development and investment teams to review 2023 progress and strategize for 2024. The effort of this program is to build consensus across the business and ensure we are including a diversity of perspectives.

## ESG in our Communities

As part of our philanthropic program, AQR supports organizations that provide exposure to the financial services industry, access to role models, and educational initiatives to help expand the pipeline of underrepresented talent. We have identified local community partners in North America, Europe, and Asia who are creative and innovative in their approaches and where our engagement can aid their efforts. In 2023, we continued our partnership with BLK Capital Management, a 100% black owned and student run non-profit, and with Norwalk Grassroots Tennis and Education to promote academic and athletic opportunities. In Europe, we partnered with Into University, which supports young people from disadvantaged backgrounds to attend university or another chosen aspiration, and in India, we partnered with the Agaram Foundation to support first generation college students.

Additionally, our philanthropic partners include organizations focused on environmental causes, such as the Billion Oyster Project, a nonprofit focused on restoring oyster reefs to New York Harbor and the Clean Air Task Force, which focuses on technology and policy changes needed to achieve zero-emissions at an affordable cost. We also offer volunteer opportunities with organizations such as SoundWaters Coastal Cleanup, where employees helped remove debris from a local Connecticut coastline and The Conservation Volunteers, where employees in London participated in a volunteer event cutting back hedges, cleaning up walking paths, and repairing park hedges and furniture.



## Awards and Recognition

For seven consecutive years, AQR has been named a Pensions & Investments' "Best Place to Work" in Money Management, a recognition based on an employee survey, firm benefits and culture.<sup>15</sup> And, for the fifth year, AQR received a 100% in the Human Rights Campaign's Corporate Equality Index (CEI) in 2019, 2020, 2021, 2022 and 2023, earning the distinction of being a 2023 recipient of the "Equality 100 Award: Leader in LGBTQ+ Workplace Inclusion."<sup>16</sup>

<sup>15</sup> For seven years in a row, AQR was named one of Pensions and Investments' Best Places to Work in Money Management in 2017, 2018, 2019, 2020, 2021, 2022 and 2023

<sup>16</sup> The Human Rights Campaign named AQR a 2019, 2020, 2021, 2022 and 2023 Best Place to Work for LGBTQ Equality

# Looking Ahead

## 2024 Priorities

Year over year, we seek to innovate in our approach to sustainable investing and deepen our stewardship, consistent with our fiduciary obligations and belief in transparency.

AQR's ESG research pipeline for 2024 is robust and spans asset classes. Beyond equities, constructing a framework for ESG investing in sovereign bonds is a project we commenced in 2023 and hope to finalize in 2024. Other macro asset classes are on the agenda too—for example, sustainable commodities and sustainable equity index futures. In the product space, defining an application of a sustainable investment process for trend following strategies is a 2024 priority.

We are committed to helping our clients achieve their ESG goals, and we seek client feedback on these topics; in most cases, no two normative views cleanly intersect, so these projects are philosophically challenging. We also seek academic evidence; as a quantitative manager, AQR can tackle ESG considerations as a portfolio construction problem and analyze inherent trade-offs accordingly.

As AQR's product range evolves, we seek to understand how we can apply sustainable considerations where they are of interest to investors. Lower tracking error and portable alpha strategies are two potential examples on the horizon for 2024. We integrate ESG considerations as standard wherever we identify that they are additive to risk and return, and anticipate completing ESG-related projects both in alpha signals and in risk measures next year. This includes exploring new data sets on E, S, and/or G topics.

In stewardship, we have two key priorities for 2024: expanding our direct engagement program and collaborating with investors on more engagements. Not only do we intend to extend the scale of our outreach to companies failing to disclose emissions, but we plan to solicit disclosure of other data points salient to the investment process but where coverage is lackluster. We recognize the efficacy of collective engagement, so while we do not undertake issue-focused engagement, we welcome the opportunity to partner where there is synergy with our transparency-focused approach.

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#### **Human Rights Campaign Corporate Equality Index and Best Place to Work for LGBTQ Equality**

Measuring LGBTQ+ workplace equality, the Corporate Equality Index is a national benchmarking survey administered by the Human Rights Campaign, the largest national LGBTQ+ civil rights organization. A score of 100 on the survey requires comprehensive benefits, policies, training, education, community involvement and senior sponsorship.

#### **Pensions & Investments' Best Places to Work**

Pensions & Investments Best Places to Work is based on a questionnaire about the firm's policies, practices, benefits and demographics, as well as an engagement and satisfaction survey of employees. AQR was recognized for the priority it places on the well-being of employees, its efforts to foster connectivity with colleagues even while working remotely, its plans to adopt a hybrid work model and the effort made to support employees' work-life balance.

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