Covered Calls

And Their Unintended Reversal Bet

Private and Confidential

Prepared Exclusively for
Nomura Global Quantitative Equity Conference

May 8, 2014

AQR Capital Management, LLC
Two Greenwich Plaza
Greenwich, CT 06830
p: +1.203.742.3600 | w: aqr.com

Disclosures

The information set forth herein has been obtained or derived from sources believed by AQR Capital Management, LLC ("AQR") to be reliable. However, AQR does not make any representation or warranty, express or implied, as to the information's accuracy or completeness, nor does AQR recommend that the attached information serve as the basis of any investment decision. This document has been provided to you solely for information purposes and does not constitute an offer or solicitation of an offer, or any advice or recommendation, to purchase any securities or other financial instruments, and may not be construed as such. This document is intended exclusively for the use of the person to whom it has been delivered by AQR and it is not to be reproduced or redistributed to any other person. This document is subject to further review and revision. For one-on-one presentation use only. **Past performance is not a guarantee of future performance.**

This presentation is not research and should not be treated as research. This presentation does not represent valuation judgments with respect to any financial instrument, issuer, security or sector that may be described or referenced herein and does not represent a formal or official view of AQR.

The views expressed reflect the current views as of the date hereof and neither the speaker nor AQR undertakes to advise you of any changes in the views expressed herein. It should not be assumed that the speaker or AQR will make investment recommendations in the future that are consistent with the views expressed herein, or use any or all of the techniques or methods of analysis described herein in managing client accounts. AQR and its affiliates may have positions (long or short) or engage in securities transactions that are not consistent with the information and views expressed in this presentation.

The information contained herein is only as current as of the date indicated, and may be superseded by subsequent market events or for other reasons. Charts and graphs provided herein are for illustrative purposes only. The information in this presentation has been developed internally and/or obtained from sources believed to be reliable; however, neither AQR nor the speaker guarantees the accuracy, adequacy or completeness of such information. Nothing contained herein constitutes investment, legal, tax or other advice nor is it to be relied on in making an investment or other decision.

There can be no assurance that an investment strategy will be successful. Historic market trends are not reliable indicators of actual future market behavior or future performance of any particular investment which may differ materially, and should not be relied upon as such. Target allocations contained herein are subject to change. There is no assurance that the target allocations will be achieved, and actual allocations may be significantly different than that shown here. This presentation should not be viewed as a current or past recommendation or a solicitation of an offer to buy or sell any securities or to adopt any investment strategy.

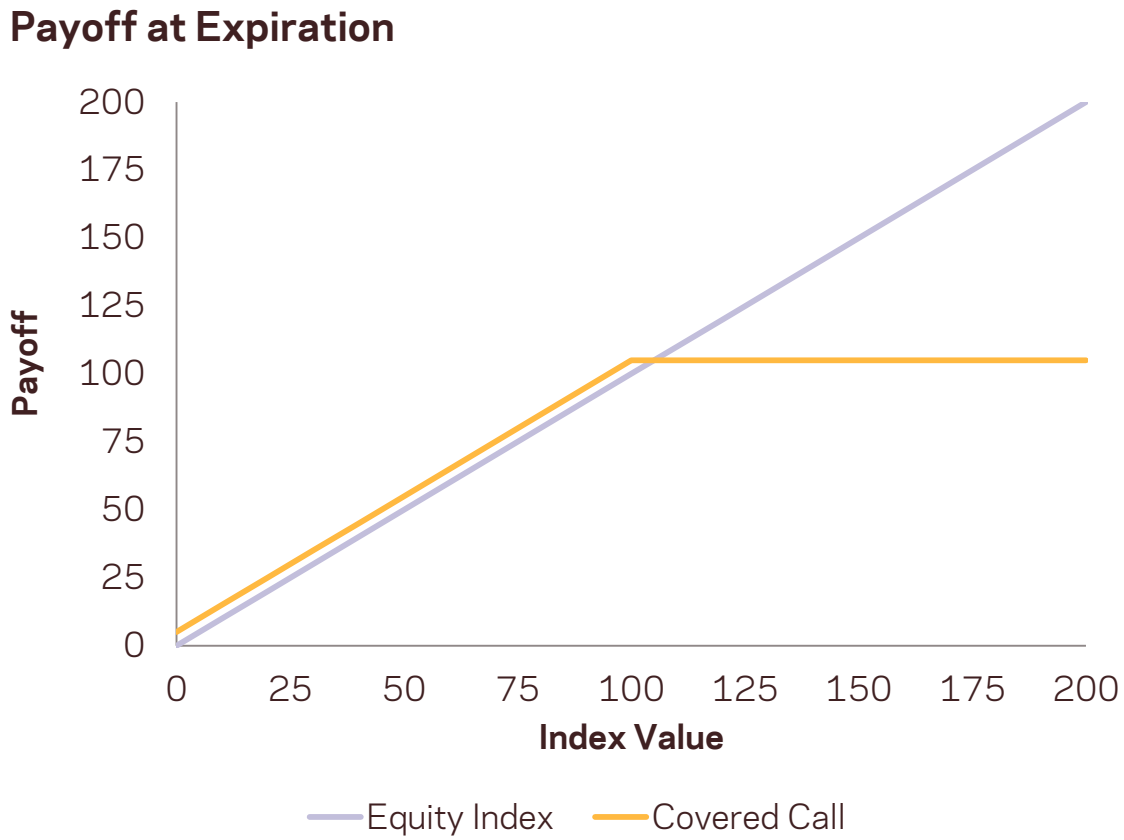
The information in this presentation may contain projections or other forward-looking statements regarding future events, targets, forecasts or expectations regarding the strategies described herein, and is only current as of the date indicated. There is no assurance that such events or targets will be achieved, and may be significantly different from that shown here. The information in this presentation, including statements concerning financial market trends, is based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons. Performance of all cited indices is calculated on a total return basis with dividends reinvested.

The investment strategy and themes discussed herein may be unsuitable for investors depending on their specific investment objectives and financial situation. Please note that changes in the rate of exchange of a currency may affect the value, price or income of an investment adversely.

Neither AQR nor the speaker assumes any duty to, nor undertakes to update forward looking statements. No representation or warranty, express or implied, is made or given by or on behalf of AQR, the speaker or any other person as to the accuracy and completeness or fairness of the information contained in this presentation, and no responsibility or liability is accepted for any such information. By accepting this presentation in its entirety, the recipient acknowledges its understanding and acceptance of the foregoing statement.

What Are Covered Calls?

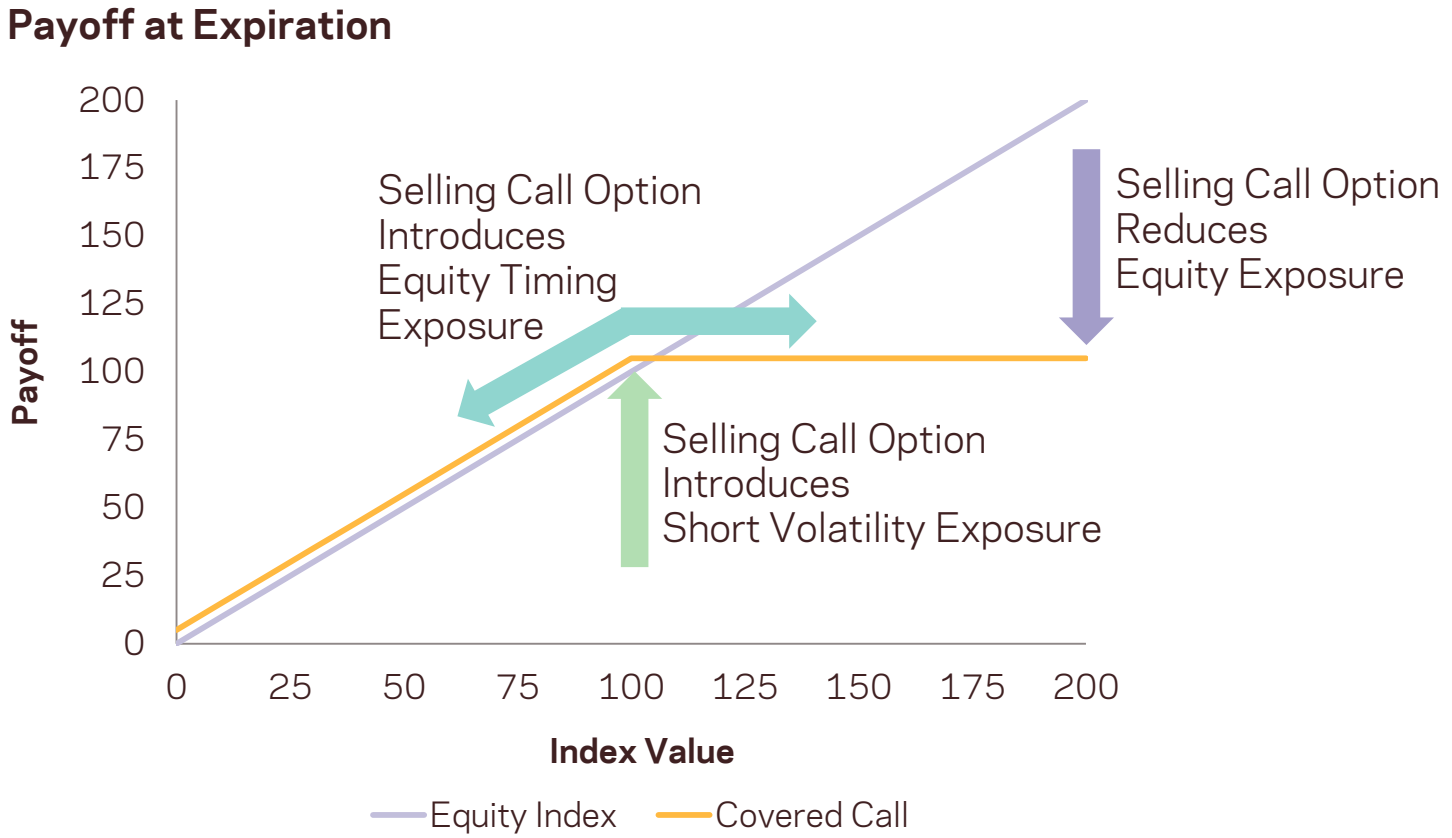
Non-Linear Exposure to Index Value



Source: AQR. For illustrative purposes only. Please read important risk disclosures in the Appendix.

What Are Covered Calls?

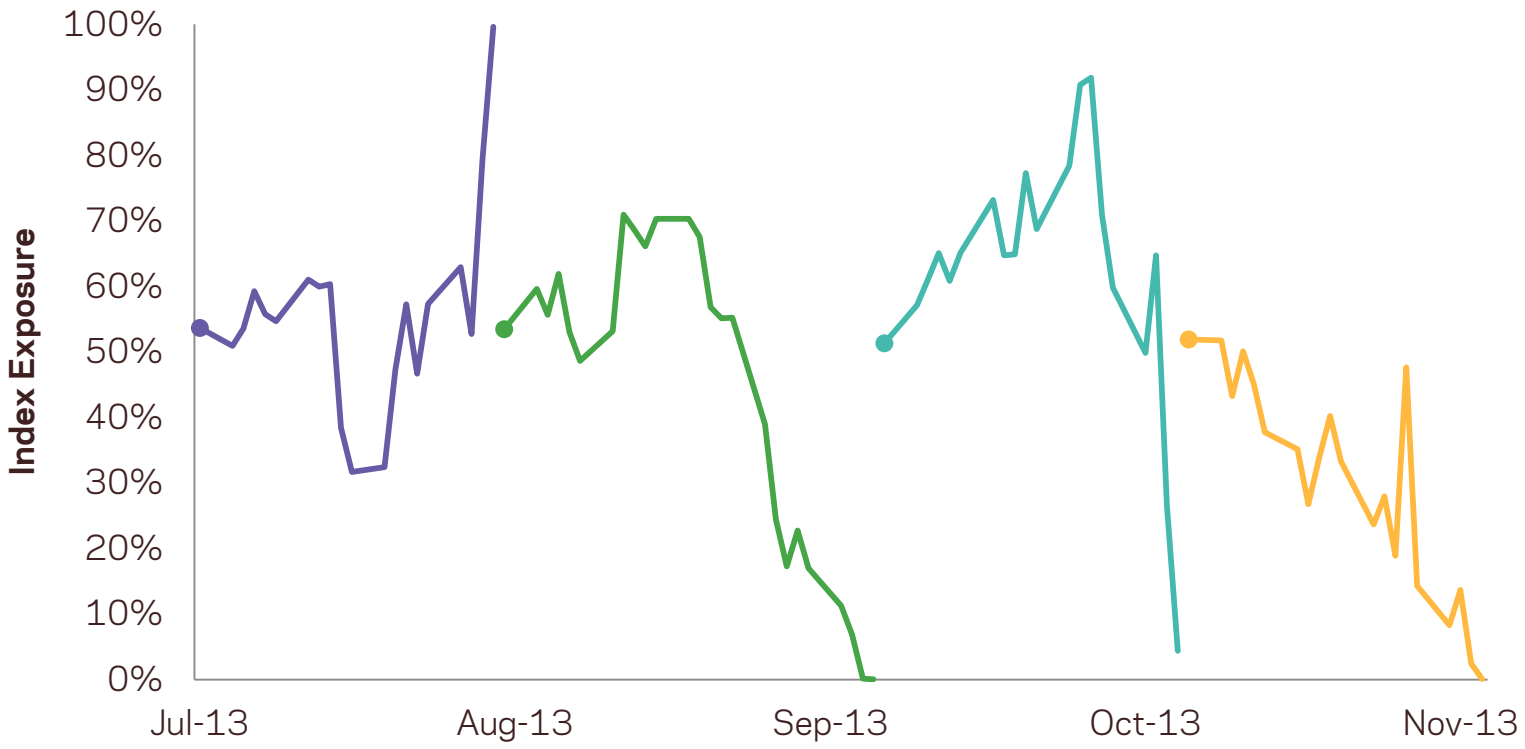
Covered Calls Alter Three Portfolio Characteristics



Source: AQR. For illustrative purposes only. Please read important risk disclosures in the Appendix.

Timing Bet Grows as Time Passes … and Then Resets

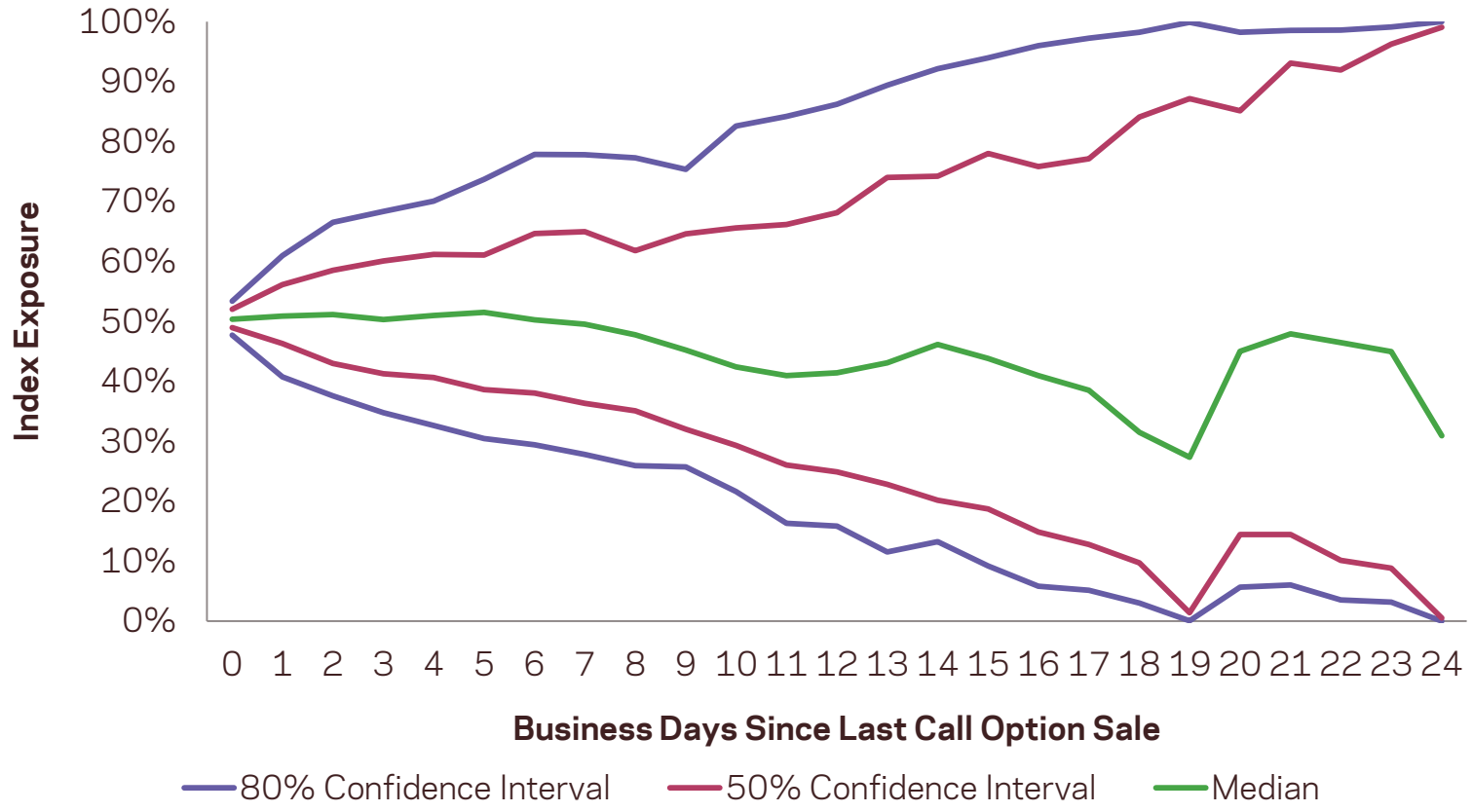
Example: S&P 500 Index At-the-Money Covered Call



Source: AQR. Typical Covered Call Approach is an AQR backtest replicating the CBOE S&P 500 BuyWrite Index. Index exposures are calculated according to the Black Scholes model. Hypothetical data has certain inherent limitations, some of which are disclosed in the Appendix hereto.

Active Index Exposure May Be Significant

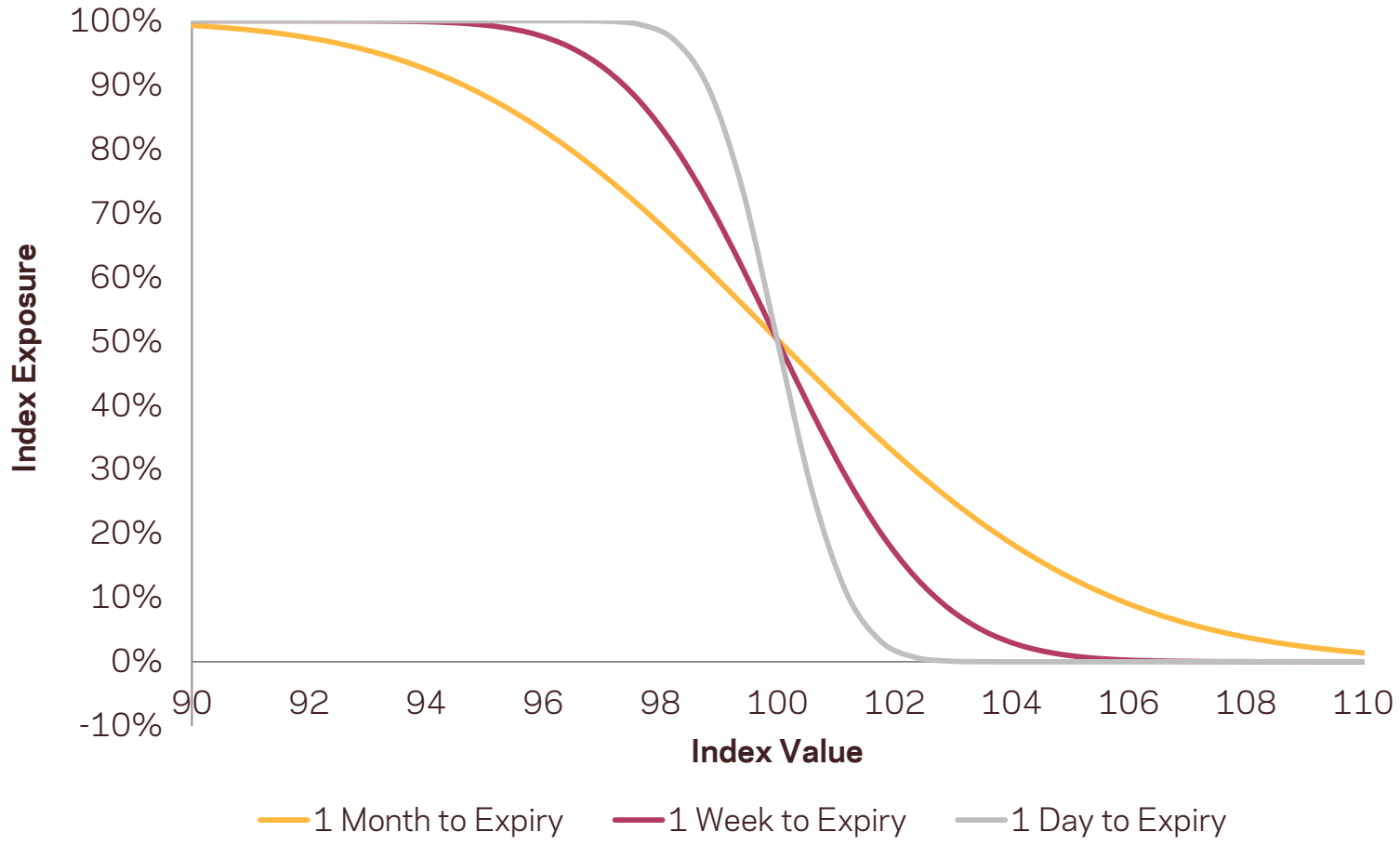
Example: S&P 500 Index At-the-Money Covered Call



Source: AQR. Typical Covered Call Approach is an AQR backtest replicating the CBOE S&P 500 BuyWrite Index. Index exposures are calculated according to the Black Scholes model. Charts and statistics are based on the period from March 25, 1996 to December 31, 2013. Hypothetical data has certain inherent limitations, some of which are disclosed in the Appendix hereto.

A Covered Call Bets on Equity Reversals

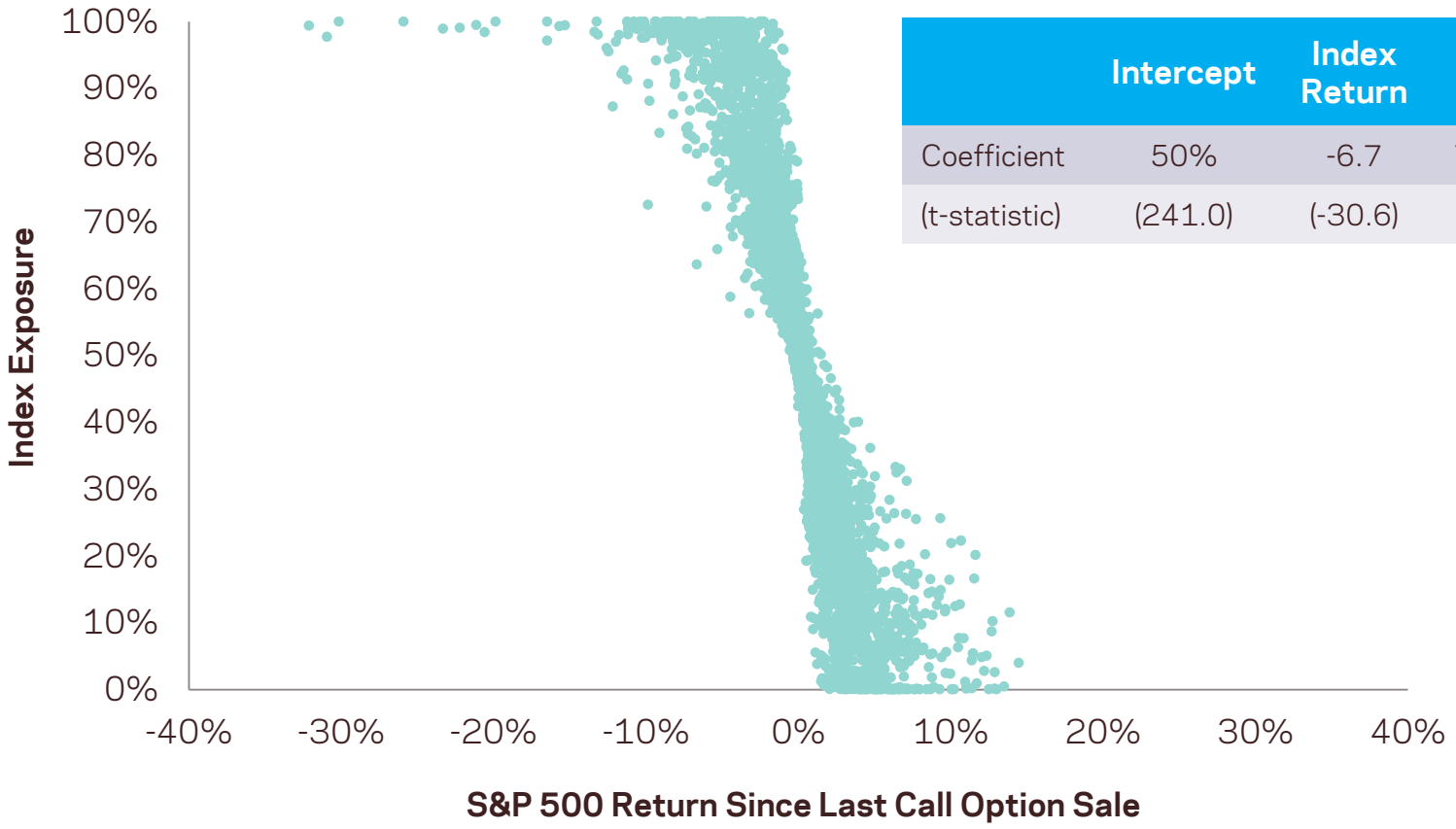
Exposure to Reversal Increases as Expiration Nears



Source: AQR. For illustrative purposes only. Please read important risk disclosures in the Appendix.

A Covered Call Bets on Equity Reversals

We Compare Index Exposure to Historical Index Returns



	Intercept	Index Return	R^2
Coefficient	50%	-6.7	74.2%
(t-statistic)	(241.0)	(-30.6)	

Source: AQR. Returns are for the period from March 25, 1996, to December 31, 2013. Regression is estimated over the same period. The t-statistics estimated for the two regression coefficients are obtained using the bootstrap resampling technique due to the unusual overlapping nature of the data. Past performance is not a guarantee of future returns. Please read important risk disclosures in the Appendix.

Does Active Exposure Forecast Equity Index Returns?

Regression Indicates No Statistical Significance

Cumulative Returns of Hypothetical Reversal Component

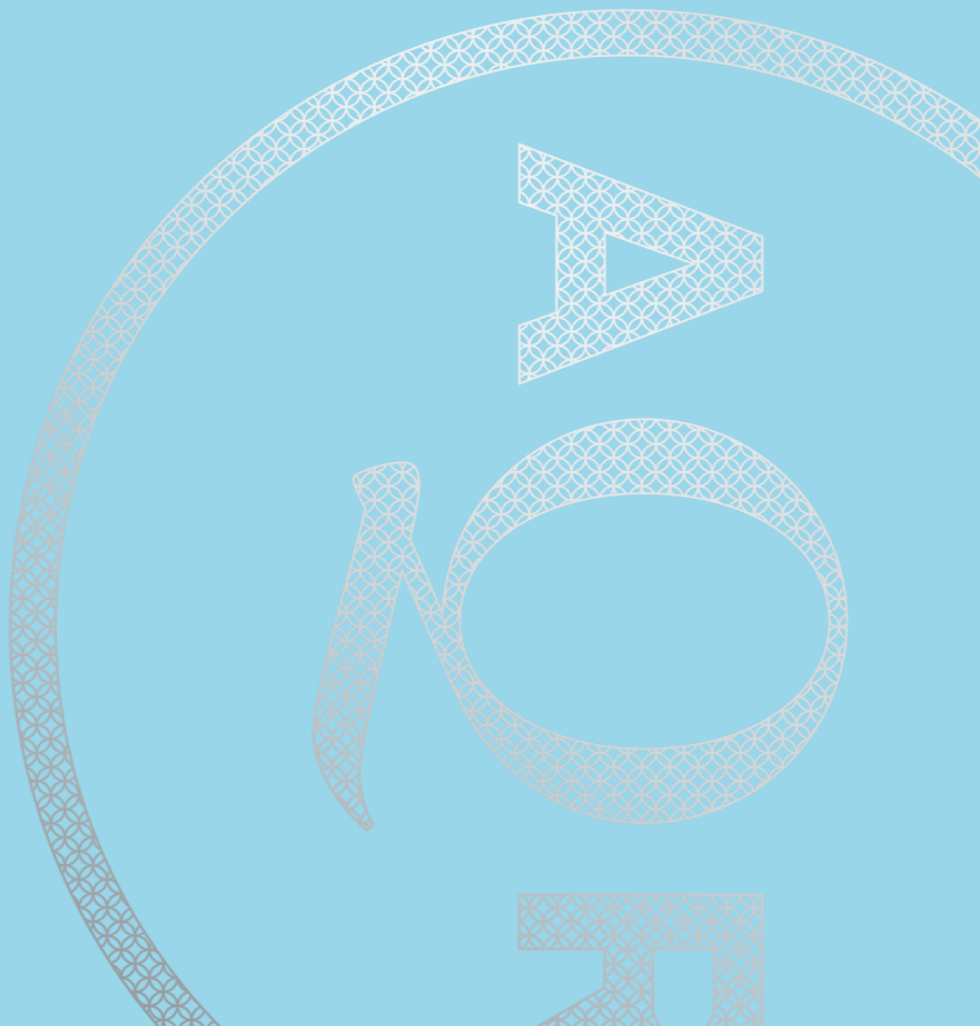
	Intercept	Active Equity Exposure	R^2
Coefficient	2.6 bps	5.6 (bps)	0.01%
(t-statistic)	(1.4)	(0.6)	

Source: AQR. Returns are for the period from March 25, 1996, to December 31, 2013. Regression is estimated over the same period. The t-statistics estimated for the two regression coefficients are obtained using the bootstrap resampling technique due to the unusual overlapping nature of the data.

Reversal component of the Typical Covered Call Approach is an AQR backtest replicating the CBOE S&P 500 BuyWrite Index. The replicated BuyWrite Index differs from the CBOE S&P 500 BuyWrite Index because the CBOE Index writes new call positions on expiry dates using VWAP of intraday prices and our replicated index writes new call positions using reported closing midpoint prices.

Hypothetical data has certain inherent limitations, some of which are disclosed in the Appendix hereto

Risk Managed Covered Calls

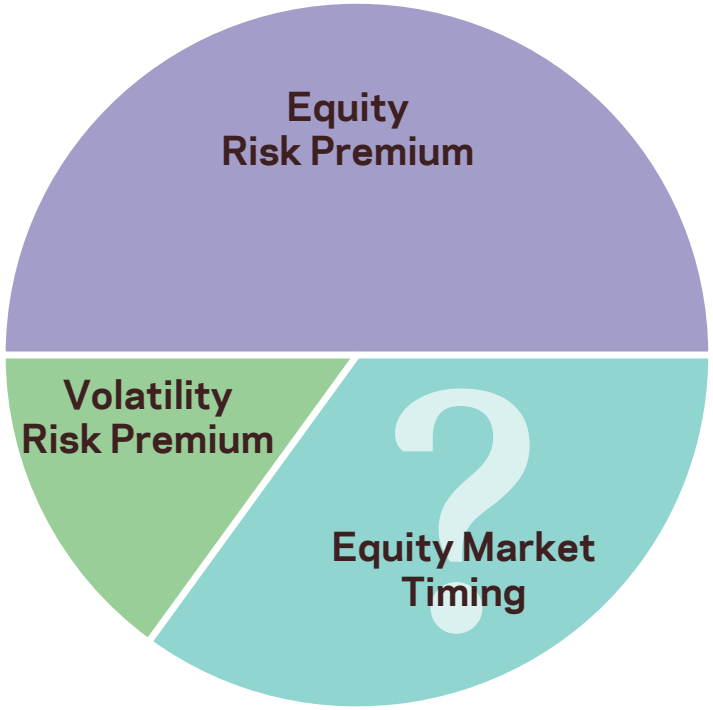


Investment Philosophy

AQR Seeks to Reduce Exposure to Uncompensated Risks

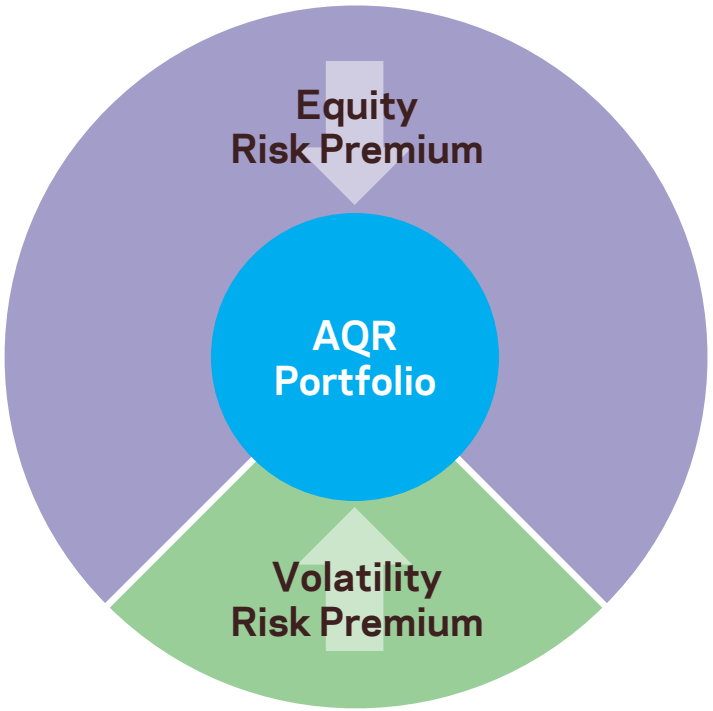
Typical Covered Call Approach

Multiple risks
embedded in one portfolio



AQR Approach

AQR seeks to eliminate unintended risks
and target intended risks



Source: AQR. For illustrative purposes only. Please read important disclosures in the Appendix.

Investment Philosophy

AQR Seeks to Reduce Exposure to Uncompensated Risks

Typical Covered Call Approach (Simulations)

Multiple risks
embedded in one portfolio

	Total[1]	Equity Risk Premium	Volatility Risk Premium	Equity Market Timing
Annualized Excess Return	5.7%	3.2%	1.9%	0.6%
Annualized Volatility	11.6%	8.3%	2.0%	4.9%
Sharpe Ratio	0.50	0.39	0.95	0.12

AQR Approach (Simulations)

AQR seeks to eliminate unintended risks
and target intended risks

	Total	Equity Risk Premium	Enhanced VRP
Annualized Excess Return	5.8%	3.2%	2.6%
Annualized Volatility	9.3%	8.3%	2.1%
Sharpe Ratio	0.62	0.39	1.25

Source: AQR. Typical Covered Call Approach is an AQR backtest replicating the CBOE S&P 500 BuyWrite Index. AQR's Approach is a proprietary AQR backtest, gross of transaction costs, in excess of short-term interest rates. The results shown do not include advisory fees or transaction costs; if such fees and expenses were deducted the performance would be lower. Statistics are calculated over the period from March 25, 1996, to December 31, 2013. Hypothetical data has certain inherent limitations, some of which are disclosed in the Appendix hereto. Please read important disclosures in the Appendix. Past performance is not a guarantee of future results.

[1]The replicated BuyWrite Index differs from the CBOE S&P 500 BuyWrite Index because the CBOE Index writes new call positions on expiry dates using VWAP of intraday prices and our replicated index writes new call positions using reported closing midpoint prices.

Investment Philosophy

Potential Benefits to Investing in Covered Calls

Potential Benefits to Covered Calls

- Collect equity risk premium
- Collect volatility risk premium
- Achieve equity-like returns with lower volatility

Potential Benefits to AQR Approach

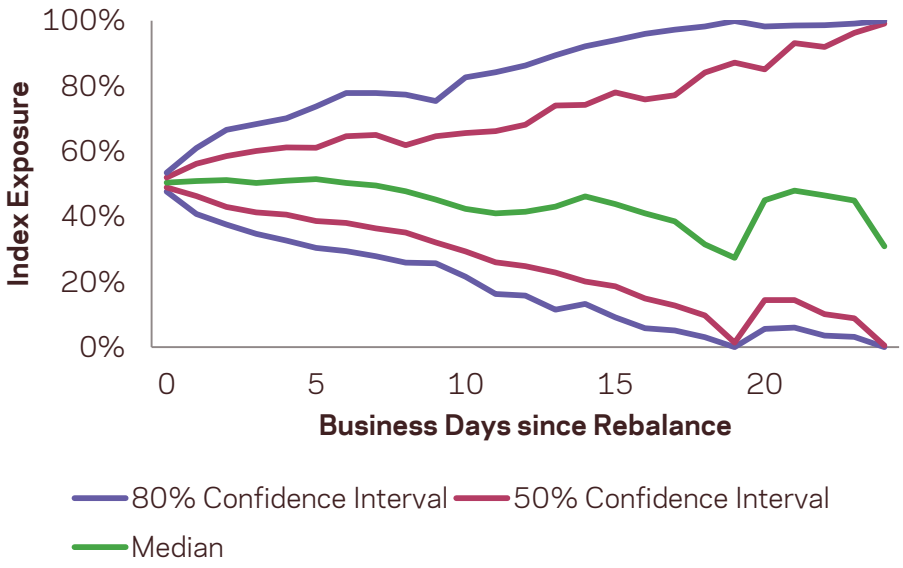
- Targeted allocation to equity and volatility risk premia
- Removal of unintended equity market timing exposure
- Robust portfolio management of options exposures

Investment Approach

Managing Equity Risk Premium Exposure

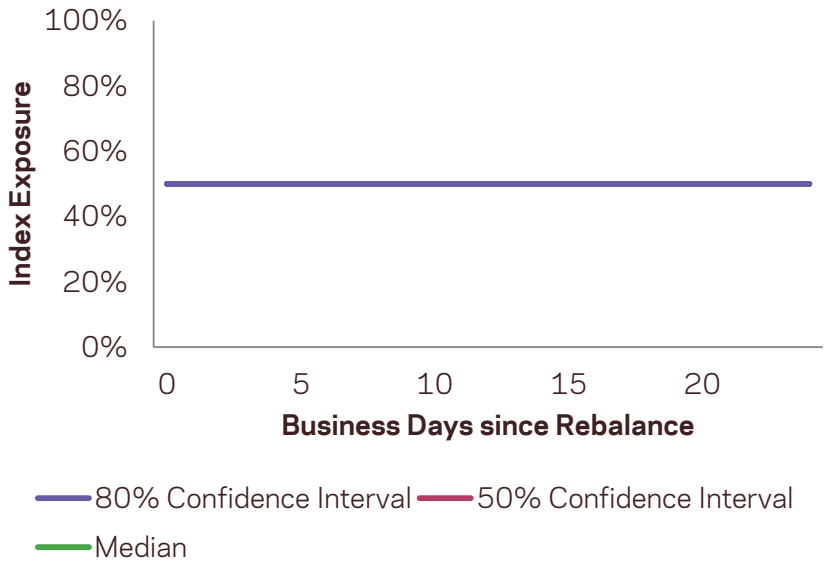
Typical Covered Call Approach (Simulations)

Exposure to market timing
is higher as expiration nears



AQR Approach (Simulations)

Through daily hedging, AQR maintains
a constant equity exposure



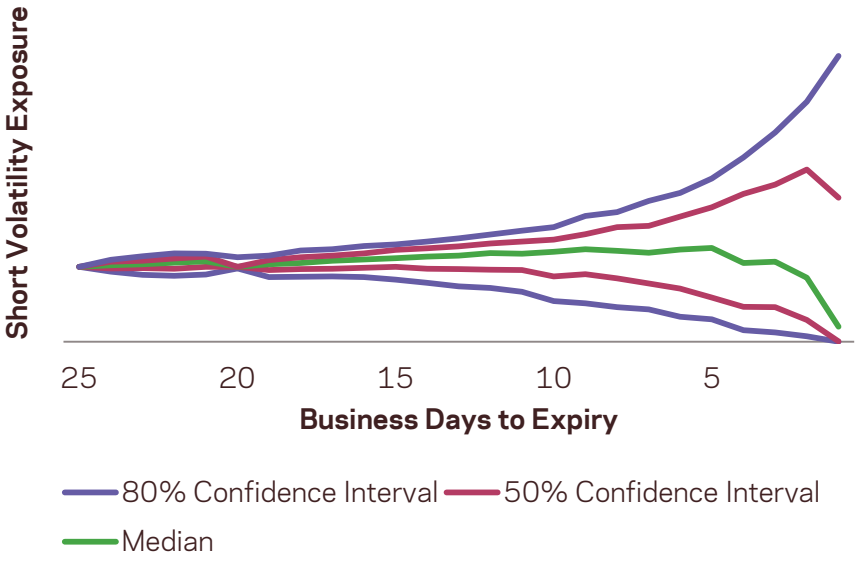
Source: AQR. Typical Covered Call Approach is an AQR backtest replicating the CBOE S&P 500 BuyWrite Index. Index exposures are calculated according to the Black-Scholes model. AQR's Approach is a proprietary AQR backtest. Charts and statistics are based on the period from March 25, 1996, to December 31, 2013. Hypothetical data has certain inherent limitations, some of which are disclosed in the Appendix hereto. Please read important disclosures in the Appendix.

Investment Approach

Managing Volatility Risk Premium Exposure

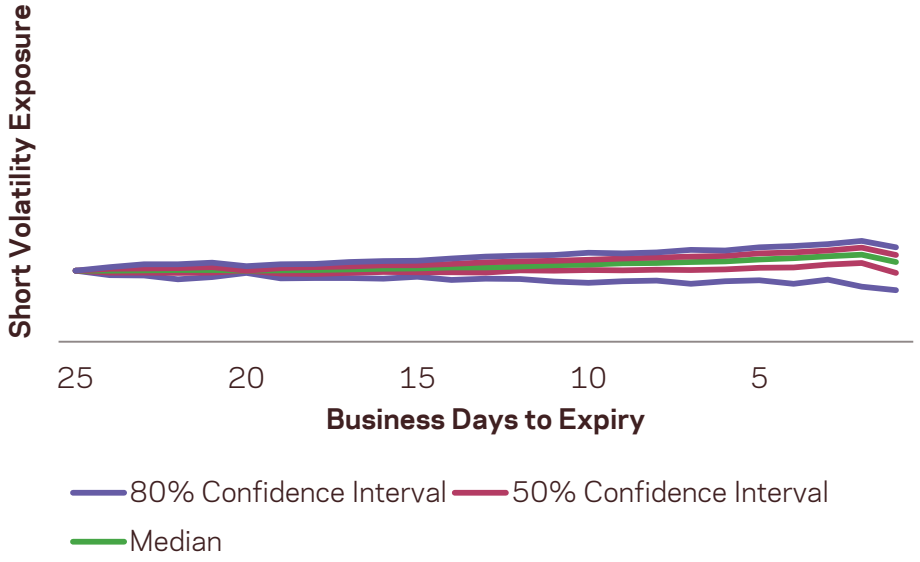
Typical Covered Call Approach (Simulations)

Volatility risk premium exposure varies significantly



AQR Approach (Simulations)

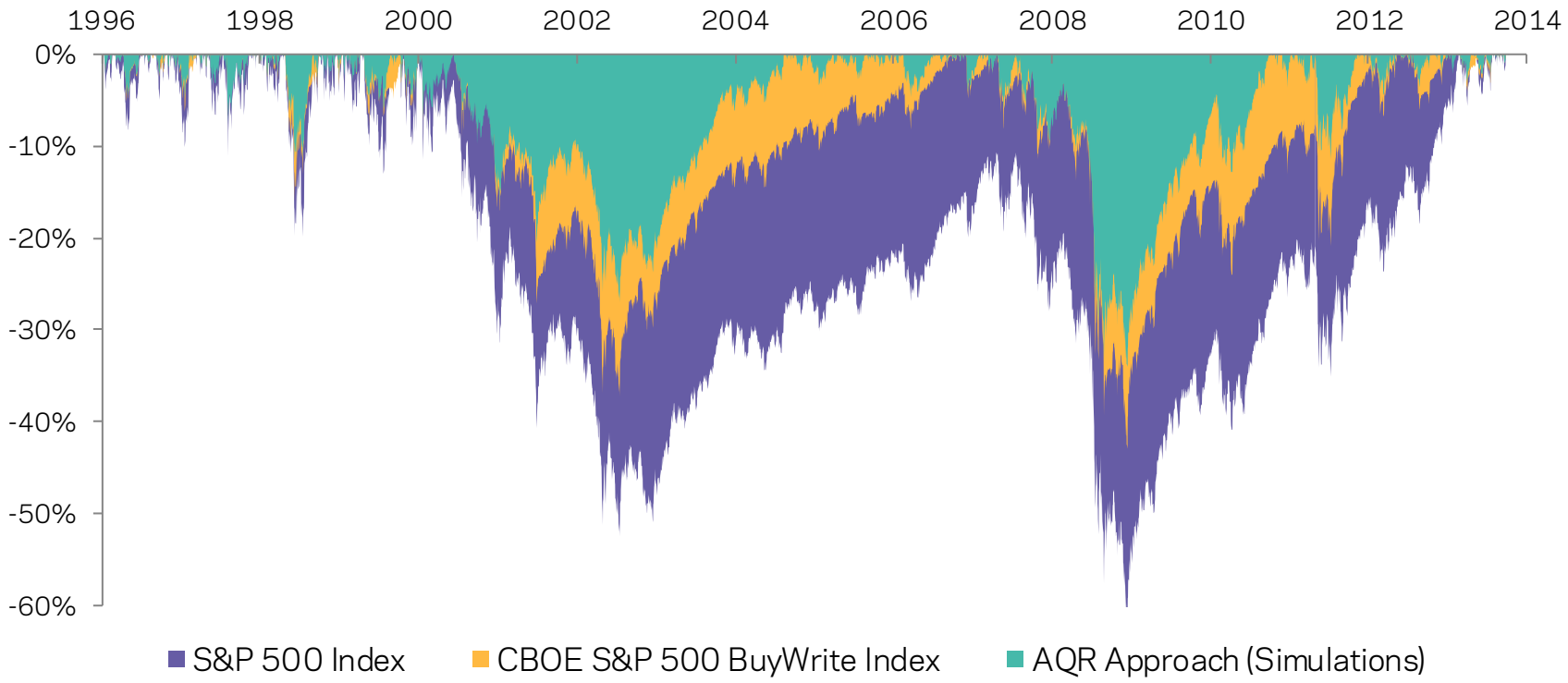
Volatility risk premium exposure is more stable due to portfolio construction of options positions



Source: AQR. Typical Covered Call Approach is an AQR backtest replicating the CBOE S&P 500 BuyWrite Index. Gamma exposure is calculated according to the Black-Scholes model. AQR's Approach is a proprietary AQR backtest. Charts and statistics are based on the period from March 25, 1996, to December 31, 2013. Hypothetical data has certain inherent limitations, some of which are disclosed in the Appendix hereto. Please read important disclosures in the Appendix.

Portfolio Characteristics

AQR Approach Had Smaller Drawdowns in Simulated Performance



Sources: S&P 500 Index, CBOE S&P 500 BuyWrite Index, and AQR's Approach is a proprietary AQR backtest, gross of transaction costs, in excess of short-term interest rates. Charts are based on the period from March 25, 1996, to December 31, 2013. Hypothetical data has certain inherent limitations, some of which are disclosed in the Appendix hereto. Please read important disclosures in the Appendix.

Portfolio Characteristics

Seeks Equity-Like Returns With Lower Risk

	S&P 500	CBOE S&P 500 BuyWrite Index	AQR Approach (Simulations)
Annualized Log Excess Return	4.4%	3.8%	5.1%
Annualized Volatility	16.7%	11.6%	9.3%
Sharpe Ratio	0.26	0.33	0.55
Maximum Drawdown	-61.7%	-43.0%	-34.0%

	S&P 500	CBOE S&P 500 BuyWrite Index	AQR Approach (Simulations)
Correlation to S&P 500		0.90	0.98
Beta to S&P 500		0.64	0.54
Alpha to S&P 500		0.7% (t=0.6)	2.3% (t=5.3)
Tracking Error to S&P 500		9.1%	9.3%

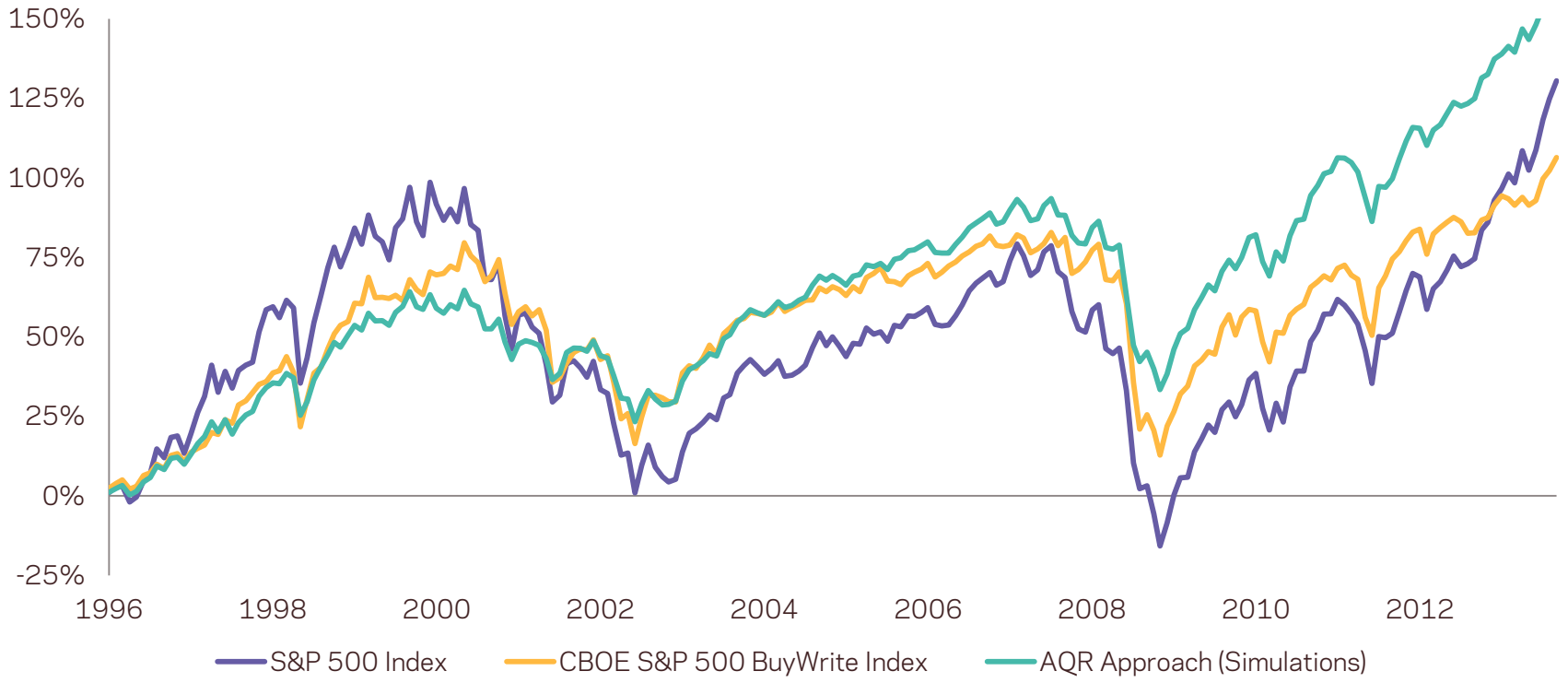
	S&P 500	CBOE S&P 500 BuyWrite Index	AQR Approach (Simulations)
Alpha to CBOE BuyWrite Index	-0.7% (t=0.6)		2.3% (t=2.3)
Tracking Error to CBOE BuyWrite Index	9.1%		5.8%

Source: S&P 500 Index, CBOE S&P 500 BuyWrite Index, and AQR's Approach is a proprietary AQR backtest, gross of transaction costs, in excess of short-term interest rates. The results shown do not include advisory fees or transaction costs; if such fees and expenses were deducted the performance would be lower. Charts are based on the period from March 25, 1996 to December 31, 2013. Hypothetical data has certain inherent limitations, some of which are disclosed in the Appendix hereto. Please read important disclosures in the Appendix. Past performance is not a guarantee of future results.

Portfolio Characteristics

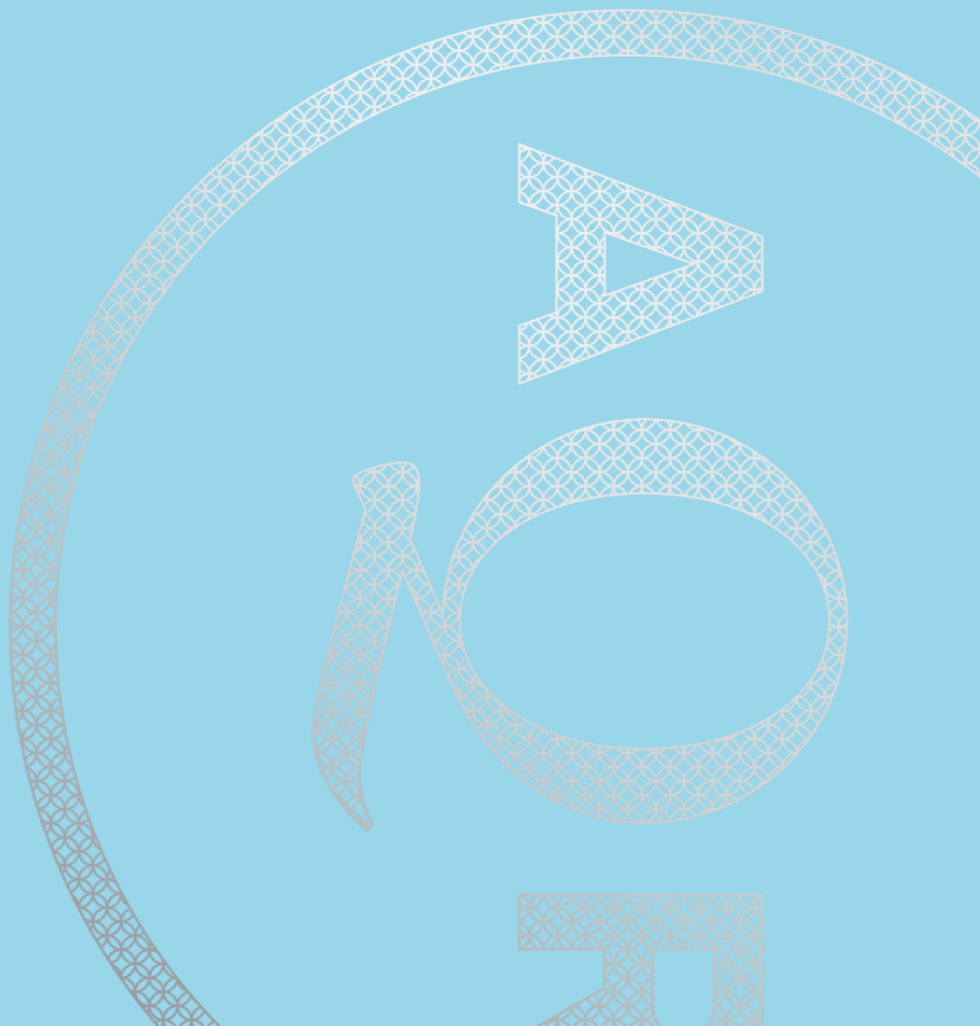
Seeks Equity-Like Returns With Lower Risk

Cumulative Returns



Source: S&P 500 Index, CBOE S&P 500 BuyWrite Index, and AQR's Approach is a proprietary AQR backtest, gross of transaction costs, in excess of short-term interest rates. The results shown do not include advisory fees or transaction costs; if such fees and expenses were deducted the performance would be lower. Charts are based on the period from March 25, 1996 to December 31, 2013. Hypothetical data has certain inherent limitations, some of which are disclosed in the Appendix hereto. Please read important disclosures in the Appendix. Past performance is not a guarantee of future results.

Conclusion

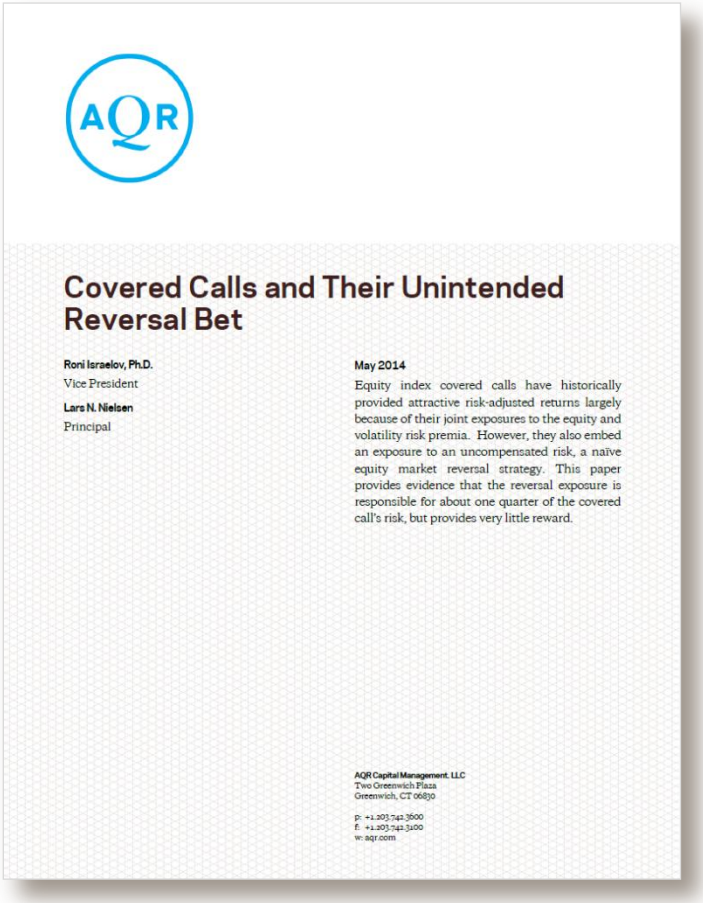


Conclusion
AQR Advantage

Experience and Research	• Industry thought leaders • Widely published in top academic/professional journals • Substantial, practical experience in all aspects of portfolio and risk management
Philosophy and Process	• Proprietary enhancements to traditional covered call strategies • Unique framework for combining risk premia
Implementation and Trading	• Robust process for portfolio optimization and rebalancing • Direct-to-market, liquidity-providing execution capabilities; low transaction costs • Risk management integral to the investment process

Conclusion

Relevant AQR Papers



Covered Calls and Their Unintended Reversal Bet

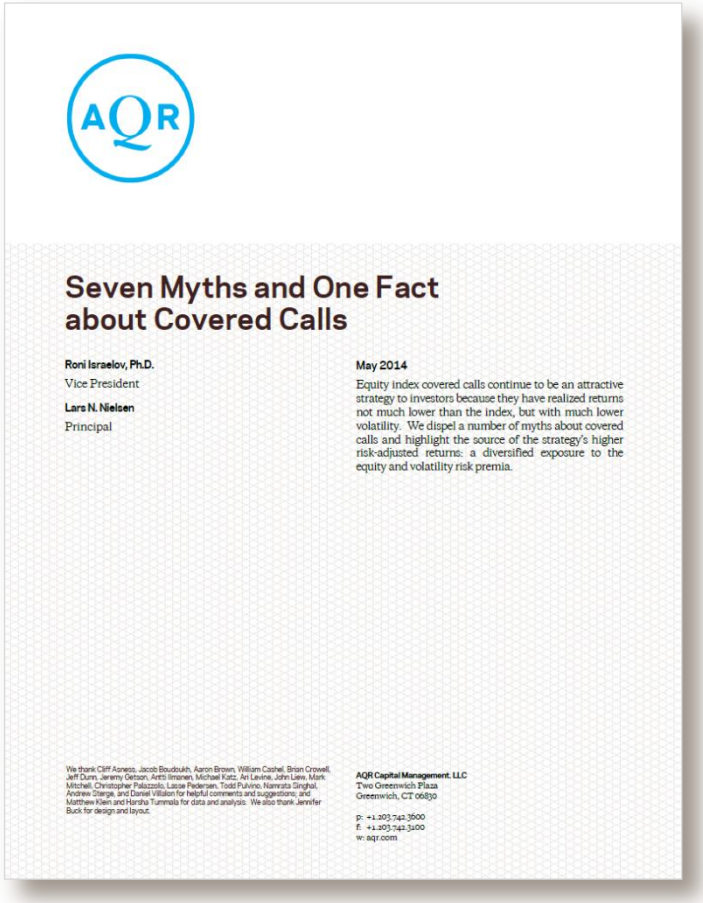
Roni Israelov, Ph.D.
Vice President
Lars N. Nielsen
Principal

May 2014

Equity index covered calls have historically provided attractive risk-adjusted returns largely because of their joint exposures to the equity and volatility risk premia. However, they also embed an exposure to an uncompensated risk, a naïve equity market reversal strategy. This paper provides evidence that the reversal exposure is responsible for about one quarter of the covered call's risk, but provides very little reward.

AQR Capital Management, LLC
Two Greenwich Plaza
Greenwich, CT 06830

p: +1.203.742.3600
f: +1.203.742.3100
w: aqr.com



Seven Myths and One Fact about Covered Calls

Roni Israelov, Ph.D.
Vice President
Lars N. Nielsen
Principal

May 2014

Equity index covered calls continue to be an attractive strategy to investors because they have realized returns not much lower than the index, but with much lower volatility. We dispel a number of myths about covered calls and highlight the source of the strategy's higher risk-adjusted returns: a diversified exposure to the equity and volatility risk premia.

We thank Cliff Asness, Jacob Boudoukh, Aaron Brown, William Cashel, Brian Crowell, Jeff Dunn, Jeremy Getson, Antti Ilmanen, Michael Katz, Ari Levine, John Liew, Mark Mitchell, Christopher Palazzolo, Lasse Pedersen, Todd Pulvino, Namrata Singhal, Andrew Stange, and Daniel Villalon for helpful comments and suggestions; and Matthew Klein and Harshu Tummala for data and analysis. We also thank Jennifer Buck for design and layout.

AQR Capital Management, LLC
Two Greenwich Plaza
Greenwich, CT 06830

p: +1.203.742.3600
f: +1.203.742.3100
w: aqr.com

Presenter Biography

Roni Israelov, Ph.D., *Vice President*

Roni oversees AQR's short-term systematic futures trading strategy and the management of related portfolios. Separately, he also manages AQR's volatility trading strategies. Prior to AQR, he was a research analyst in the quantitative equities strategies group at Lehman Brothers. He shared the Graham & Dodd Award for the paper "International Diversification Works (Eventually)" published in *Financial Analysts Journal*. Roni earned a B.S. in mechanical engineering from Georgia Institute of Technology, an M.S. in mathematical risk management from Georgia State University, and an M.S. in finance and a Ph.D. in financial economics from Carnegie Mellon University.

Disclosures

This document has been provided to you solely for information purposes and does not constitute an offer or solicitation of an offer or any advice or recommendation to purchase any securities or other financial instruments and may not be construed as such. The factual information set forth herein has been obtained or derived from sources believed to be reliable but it is not necessarily all-inclusive and is not guaranteed as to its accuracy and is not to be regarded as a representation or warranty, express or implied, as to the information's accuracy or completeness, nor should the attached information serve as the basis of any investment decision. This document is intended exclusively for the use of the person to whom it has been delivered and it is not to be reproduced or redistributed to any other person. This document is subject to further review and revision.

There is no guarantee, express or implied, that long-term return and/or volatility targets will be achieved. Realized returns and/or volatility may come in higher or lower than expected. **Past performance is not a guarantee of future performance.**

Hypothetical performance results (e.g., quantitative backtests) have many inherent limitations, some of which, but not all, are described herein. No representation is being made that any fund or account will or is likely to achieve profits or losses similar to those shown herein. In fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently realized by any particular trading program. One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or adhere to a particular trading program in spite of trading losses are material points which can adversely affect actual trading results. The hypothetical performance results contained herein represent the application of the quantitative models as currently in effect on the date first written above and there can be no assurance that the models will remain the same in the future or that an application of the current models in the future will produce similar results because the relevant market and economic conditions that prevailed during the hypothetical performance period will not necessarily recur. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the preparation of hypothetical performance results, all of which can adversely affect actual trading results. Discounting factors may be applied to reduce suspected anomalies. This backtest's return, for this period, may vary depending on the date it is run. Hypothetical performance results are presented for illustrative purposes only. n addition, our transaction cost assumptions utilized in backtests , where noted, are based on AQR's historical realized transaction costs and market data. Certain of the assumptions have been made for modeling purposes and are unlikely to be realized. No representation or warranty is made as to the reasonableness of the assumptions made or that all assumptions used in achieving the returns have been stated or fully considered. Changes in the assumptions may have a material impact on the hypothetical returns presented.

Gross performance results do not reflect the deduction of investment advisory fees, which would reduce an investor's actual return. For example, assume that $1 million is invested in an account with the Firm, and this account achieves a 10% compounded annualized return, gross of fees, for five years. At the end of five years that account would grow to $1,610,510 before the deduction of management fees. Assuming management fees of 1.00% per year are deducted monthly from the account, the value of the account at the end of five years would be $1,532,886 and the annualized rate of return would be 8.92%. For a 10-year period, the ending dollar values before and after fees would be $2,593,742 and $2,349,739, respectively. AQR's asset based fees may range up to 2.85% of assets under management, and are generally billed monthly or quarterly at the commencement of the calendar month or quarter during which AQR will perform the services to which the fees relate. Where applicable, performance fees are generally equal to 20% of net realized and unrealized profits each year, after restoration of any losses carried forward from prior years. In addition, AQR funds incur expenses (including start-up, legal, accounting, audit, administrative and regulatory expenses) and may have redemption or withdrawal charges up to 2% based on gross redemption or withdrawal proceeds. Please refer to the Fund's Private Offering Memoranda and AQR's ADV Part 2A for more information on fees. Consultants supplied with gross results are to use this data in accordance with SEC, CFTC, NFA or the applicable jurisdiction's guidelines.

There is a risk of substantial loss associated with trading commodities, futures, options, derivatives and other financial instruments. Before trading, investors should carefully consider their financial position and risk tolerance to determine if the proposed trading style is appropriate. Investors should realize that when trading futures, commodities, options, derivatives and other financial instruments one could lose the full balance of their account. It is also possible to lose more than the initial deposit when trading derivatives or using leverage. All funds committed to such a trading strategy should be purely risk capital.

The CBOE S&P 500 BuyWrite Index (BXM) is a benchmark index designed to track the performance of a hypothetical buy-write strategy on the S&P 500 Index. The BXM is a passive total return index based on (1) buying an S&P 500 stock index portfolio, and (2) "writing" (or selling) the near-term S&P 500 Index (SPXSM) "covered" call option, generally on the third Friday of each month. The SPX call written will have about one month remaining to expiration, with an exercise price just above the prevailing index level (i.e., slightly out of the money). The SPX call is held until expiration and cash settled, at which time a new one-month, near-the-money call is written.

The S&P 500 Index is the Standard & Poor's composite index of 500 stocks, a widely recognized, unmanaged index of common stock prices.