

**Commonwealth of Pennsylvania  
Public School Employees' Retirement System**

DATE: June 6, 2012

SUBJECT: AQR Capital Management, LLC

TO: Members of the Board

FROM: James H. Grossman, Jr., CPA, CFA  
Deputy Chief Investment Officer



Joseph W. Sheva, CPA  
Senior Investment Professional



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At the June Finance Committee meeting, we are recommending that the Finance Committee invest in the AQR GRP EL 20 Offshore Fund LTD, a risk parity product managed by AQR Capital Management, LLC (AQR). The strategy is designed to maximize diversification across a broad spectrum of liquid global market risk premium by targeting equal risk across three broad asset classes: Equity, Interest Rate, and Inflation. Staff and Wilshire completed a review of AQR Capital Management, LLC's capabilities to manage a risk parity mandate and believe that they have the resources and industry expertise to successfully manage such a mandate. Staff recommends an initial investment of \$500 million in this Fund, an amount which is within the target ranges established in Exhibit D of the Investment Policy Statement, Objectives and Guidelines as amended from time to time.

**Background:**

Based on the Asset Allocation plan approved in March 2012 that allocates 5% of the Fund's assets to the Risk Parity asset class, Staff and Wilshire discussed industry leaders in risk parity that could complement our existing risk parity portfolio, Bridgewater Associates All-Weather strategy. The discussion led staff to interview BlackRock and AQR, with the decision to have on-going dialog with both firms. AQR was selected to implement first, with dialog continuing with BlackRock regarding their strategy investment process.

AQR was established in 1998, and currently has \$51.8 AUM in equity and alternative strategies. There are 110 investment professionals at the firm, with majority ownership residing with 18 principals. Their risk parity investment strategy, AQR Global Risk Premium (GRP), was launched in January 2006. The GRP strategy targeted equal risk across four broad asset classes, Equity, Interest Rate, Inflation and Credit/Default. Due to liquidity concerns, in October of 2011 AQR closed GRP to new investments and simultaneously opened the AQR GRP-Enhanced Liquidity (EL) strategy. The AQR GRP-EL strategy removed the Credit/Default asset class, but the process of targeted equal risk

across asset classes remains a core tenant of the strategy. As the name indicates, the new strategy is liquid, with weekly liquidity. The annualized return since inception of the GRP-EL 20 Volatility Adjusted Carve Out gross returns is 16.7% with a realized volatility of 18.0% and a Sharpe Ratio of 0.8. AQR currently manages \$13.5 billion in risk parity strategies.

Included with this memo are Wilshire's recommendation memo, a power point presentation prepared by staff, a presentation prepared by AQR, and the resolution recommending an investment in the AQR GRP EL 20 Offshore Fund LTD. Representatives from AQR will make a presentation to the Finance Committee and will be available for any questions.

If you have any questions or comments, please contact me at 717-720-4632.