Buckingham

AQR Flex SMA

Management Company

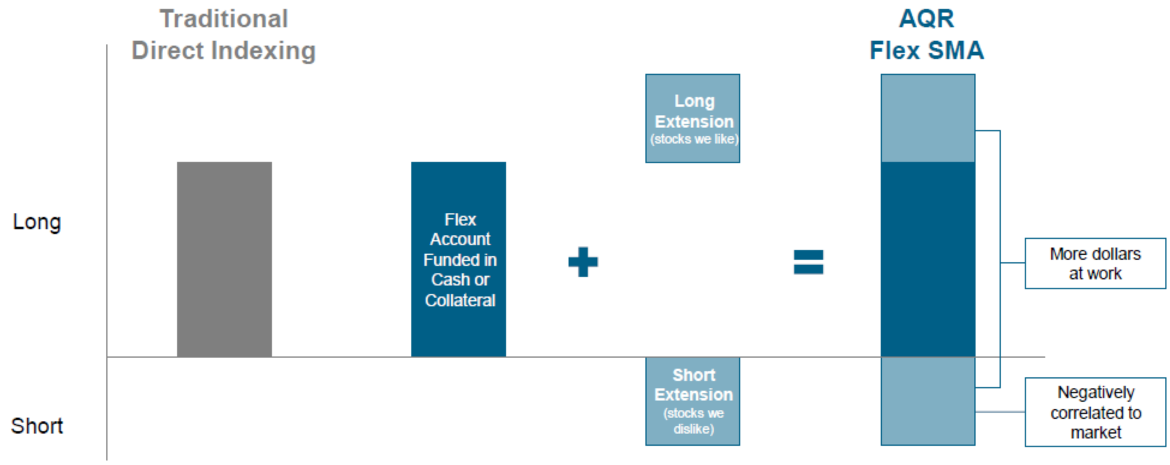
- AQR (Applied Quantitative Research) started in 1998 and is based in Connecticut.
- AQR has $3 billion in assets under management, as of Dec. 31, 2023, in various tax-aware strategies and $99 billion of assets under management as a firm.

Investment Structure and Strategy

- A separately managed account (SMA) holding a diversified portfolio of individual equities managed by AQR.
- Seeks to capture broad equity market returns while deferring capital gains and realizing capital losses where possible.
- The primary benefit is that realized capital losses can offset realized capital gains on other assets.

Goals and Expectations

A big headwind for most tax-loss harvesting strategies is time. As markets go up, opportunities to harvest losses can become scarce in a long-only strategy, often going away almost entirely after only a few years. By holding both long and short positions, AQR Flex SMAs are designed to alleviate this problem by generating capital losses that are potentially larger and longer lived while still seeking to deliver positive, pre-tax expected returns.



Source: AQR. For illustrative purposes only.

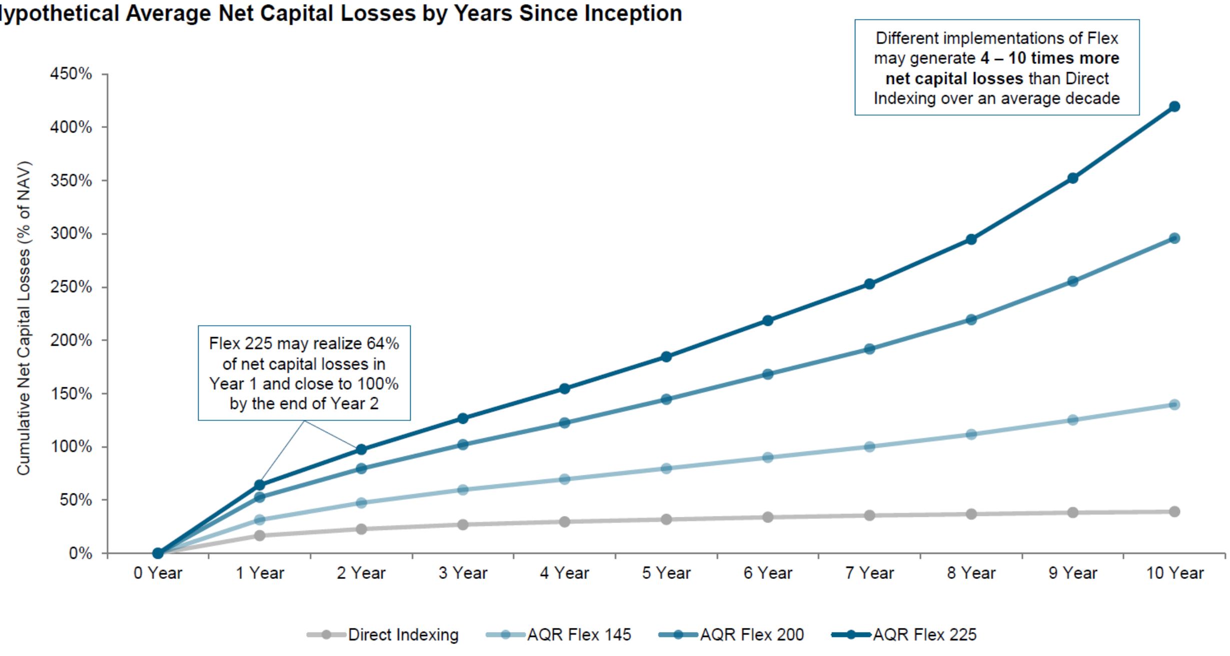
Flex SMAs use AQR's long-short stock selection strategy to overweight (relative to the chosen benchmark) stocks that are identified as attractive, and underweight—and possibly short—stocks that are identified as unattractive.

Flex SMAs use a systematic approach based on evidence to evaluate securities using a multitude of individual signals that can be aggregated into the following broad themes:

- **Valuation** – attractive prices relative to fundamentals
- **Momentum** – improving prices and fundamentals
- **Quality** – stable and high-quality financials, and sound accounting practices
- **Sentiment** – support of high-conviction investors and shareholder-friendly management

Flex SMAs combine AQR's best practices in portfolio construction with tax-aware rebalancing. By considering unrealized gains and losses of all the individual long and short positions, Flex seeks to defer the realization of gains while allowing the realization of losses in the process of normal portfolio turnover. It is important to understand, however, that the Flex SMA portfolio will generally tend to accumulate very sizable unrealized capital gains as markets tend to appreciate over time.

Hypothetical Average Net Capital Losses by Years Since Inception



Source: AQR. Hypothetical data is calculated across 14 simulations starting each year from January 1, 2000 – January 1, 2013. Hypothetical AQR Flex 145, AQR Flex 200, and AQR Flex 225 data is net of a 0.375%, 1.0%, and 1.50% management fee per annum, respectively. This material is intended for informational purposes only and should not be construed as legal or tax advice, nor is it intended to replace the advice of a qualified attorney or tax advisor. The recipient should conduct his or her own analysis and consult with professional advisors prior to making any investment decision. Changes in the assumptions may have a material impact on the information presented. Hypothetical data has inherent limitations, some of which are disclosed in the Disclosures.

Portfolio Risks

- **Complexity** – Meaningfully more complex from a design and taxation perspective than standard long-only equity portfolios.
- **Leverage** – The strategy requires the use of margin to varying degrees, which increase expenses as well as increase tracking error relative to market benchmarks.
- **Factor Tilts** – While the expectation is that the portfolio will generate returns similar to the market or better over the longer term there is the possibility, over any horizon, that the pre-tax, net-of-expense returns could fall short of benchmark returns.

Ideal Use Cases

Designed to be a strategic, long-term U.S. core equity holding within client portfolios, and historically has tended to be used in the following use cases:

- **Diversify Concentrated Stock** – Aim to quickly manage down a concentrated stock holding in a tax-efficient manner.
- **Sell An Asset Tax Efficiently** – Combine pre-liquidity planning and deal structuring to help a business owner seek to keep more of what they've built.

Fees

	Leverage	Minimum Investment	Management Fee
Low Tracking Error (1.5%)	145% long, 45% short	$1M	0.30%
Conservative Tracking Error (4%)	200% long, 100% short	$3M	0.85%
Moderate Tracking Error (6%)	225% long, 125% short	$3M	1.25%