



# AQR Momentum Indices

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U.S. Equities

Methodology Description



## I. Overview

AQR has created a family of indices designed to capture the “momentum” factor in various asset classes. This document describes the methodology for two of the U.S. indices: the AQR Momentum Index and the AQR Small Cap Momentum Index (the “Indices”):

Index Name	Index Membership
AQR Momentum Index	333 high-momentum companies chosen from among the top 1,000 U.S. companies
AQR Small Cap Momentum Index	666 high-momentum companies chosen from among the next 2,000 U.S. companies

## II. Eligibility List

A company is eligible for inclusion in the Indices if it meets all the eligibility criteria for:

- Stock exchange listing
- U.S. company
- Company type
- Liquidity
- IPO seasoning
- Multiple classes of stock
- Acquisition or merger target

### Stock Exchange Listing:

The common stock of the company is or is not eligible for inclusion if it is listed on one of the following exchanges:

Exchange	Eligible? (Y/N)
NYSE	Y
NYSE Arca	Y
NYSE Alternext	Y
NASDAQ Global Select Market	Y
NASDAQ Select Market	Y
NASDAQ Capital Market	Y
OTC Bulletin Board	N



### U.S. Company:

Only U.S. companies are eligible for inclusion in the Indices. A company is considered a U.S. company if it meets at least one of the following characteristics:

- The company or parent company is incorporated in the U.S. or U.S. territories.
- The principal executive presence of the company is in the U.S. or U.S. territories.
- The company is generally considered a U.S. company by analysts and investors.

### Company Type:

The following company types are or are not be eligible for inclusion in the Indices:

Company Type	Eligible? (Y/N)
Operating Company	Y
Real Estate Investment Trust (REIT) excluding Mortgage REITs	Y
Business Development Companies (BDC)	Y
Tracking Stocks	Y
Limited Partnerships (LP)	N
Master Limited Partnerships (MLP)	N
Mortgage REITs	N
Royalty Trusts	N
Exchange Traded Funds or Notes (ETF, ETN)	N
Closed-End Funds	N
ADRs or ADSs	N
Special Purpose Acquisition Companies (SPACs)	N

### Liquidity:

To be eligible for inclusion, a company must meet a minimum liquidity requirement. Currently, eligible companies must have a three-month median daily trading volume of at least \$0.1MM. This cutoff is reviewed from time to time to assure consistency with market conditions.

### IPO Seasoning:

To be eligible for inclusion, a company that was created via an IPO must have a minimum seasoning of 12 months.

### Multiple Classes of Stock:



A company with multiple classes of stock is represented only once in the eligibility list. The most liquid class is chosen, based on trading volume.

#### Acquisition or Merger Target:

A company that is the target of an announced acquisition or merger offer is not eligible for inclusion in the index.

### III. Capitalization Screen

The universe of all companies that meet the eligibility criteria described in Section II is divided into two market capitalization ranges as follows:

Index Name	Market Capitalization Range
AQR Momentum Index	Top 1,000 companies, ranked based on market capitalization, among all eligible companies.
AQR Small Cap Momentum Index	Companies that rank 1,001-3,000, based on market capitalization, among all eligible companies.

For purposes of calculating market capitalization:

- The shares outstanding are “basic shares” as defined by FASB in GAAP.
- Market cap is determined based on unadjusted market cap (i.e., no float adjustment).
- For companies with multiple share classes, the share count is based on total shares outstanding across all classes of shares.
- Market cap is based on the last trading day of the month prior to the rebalancing date.

### IV. Momentum Index Construction

The momentum index for each relevant market capitalization range is constructed as follows:

At the defined rebalancing interval:

- 1) Rank all the companies in the market capitalization range by the “high momentum” measure, which is defined as the total return of the stock (including the reinvestment of dividends) over the prior 12 months, excluding the last month. For example, on December 31 this would be the total return from the preceding January 1 to November 30.
- 2) Select the stocks that rank in the top 33% of the market capitalization range, based on high momentum.
- 3) Weight the selected stocks according to their respective market capitalization. Market capitalization is defined the same way as in Section III.



The resulting index is summarized below:

Index Name	Index Membership
AQR Momentum Index	333 high-momentum companies chosen from among the top 1,000 U.S. companies
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## V. Rebalancing Frequency

The index will be re-constituted once a quarter as of the end of the last trading day in March, June, September and December.

## VI. Additions to the Index

There will be no additions to the index between the quarterly rebalancing intervals.

## VII. Deletions from the Index

- A company that is no longer in the investment universe by virtue of eligibility or market capitalization at the time of rebalancing will be removed from the index.
- There will generally be no deletions from the index between the quarterly rebalancing intervals, except as noted below:
  - A company that ceases trading because of a merger, acquisition, or other corporate action is normally removed at close of the last day of trading or expiration of the tender offer.
  - A company for which trading was halted is generally kept in the index until trading resumes, but may be removed at AQR's discretion.
  - A company that is bankrupt and for which there is no achievable price can be removed at zero price at AQR's discretion.
  - A company that is moved to pink sheet or bulletin board status is removed from the index.
- When a company is deleted from the index (other than via an exchange for stock of another company in the same index), the value of the deleted company is *de facto* redistributed pro-rata across all remaining constituents of the index by virtue of the adjustment of the divisor of the index (see Section VIII).



- When a company is deleted from the index via an exchange for stock of another company in the same index, the value received is *de facto* re-distributed to the acquiring company by virtue of the acquiring company's increase in shares (see Section IX. under "Share Updates").

### VIII. Index Calculation

- The index value is the quotient of the market capitalization of the constituents and the divisor.
- The divisor is adjusted daily for changes in constituent's share capital, including dividends, rights issues, share buy-backs and issuances, and spin-offs, as well as additions or deletions from the index.
- The divisor is adjusted such that the index value an instant prior to a change in base capital equals the index value at an instant immediately following that change.

### IX. Index Maintenance

The AQR Momentum Indices will be maintained by Standard & Poor's Financial Services LLC ("S&P"), acting as an independent calculation agent, according to the following methodology:

#### A. Share Updates:

Event	Approach
Share updates of 5% or more due to: Mergers, acquisitions, public offerings, private placements, tender offers, Dutch auctions or exchange offers	Made on the S&P schedule
Other share updates of 5% or more due to: Stock repurchase, redemption, exercise of options, warrants, conversion of preferred stock, notes, debt, equity participations or other recapitalizations	Made weekly: Announce Tuesday for implementation after close of trading Wednesday
Share updates of less than 5% due to an acquisition, if both companies are part of same U.S. Custom Index	Made on the S&P schedule
Other share updates of less than 5%	Changes are accumulated and made quarterly on third Friday of Mar/Jun/Sep/Dec



## B. Corporate Actions:

Event	Approach
Stock split, stock dividend, spin-off, rights offering	Applied after close of trading on the day prior to the ex-date
Exchange offers	Made on ex-date

## C. Other Adjustments:

Event	Approach
Bankrupt or suspended stock	If there is no achievable price for a stock being deleted, it can be removed at zero price at Index Committee's discretion

## X. Index Governance

The index is maintained by the AQR Index Committee. The committee may, but is not obligated to, seek S&P's input with respect to maintenance of the Indices. The committee meets quarterly, and as needed between regular meetings.

## XI. Index Policy

### Announcements:

Announcements of the new index constituents and weightings or of deletions from the index are made 5:15 p.m. ET.

### Holiday Schedule:

- Indexes are calculated when U.S. equity markets are open.
- In the case of an unscheduled market closure (e.g., because of weather or power failure), the index prices will be calculated based on:
  - the closing price on exchange, or
  - if no closing price is available, the last regular trade reported before the exchange was closed.

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