Dimensional

# Redefining Investment Advice

XY Planning Network

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#17625-1011

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# Agenda

1. Redefining Investing
2. Firm Overview
3. Working with Dimensional

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# Redefining Investing

# Redefining Investment Advice

"You don't need to find the Tiger Woods of money managers or the next Microsoft to have a successful investment experience."

—Dan Wheeler, Former Director of Dimensional's Financial Advisor Services Group

# What You Can't Control

Pick winning stocks.

Predict superior managers.

Time the markets.

Financial press.

# Market Prices Contain Relevant Information

Prices reflect the aggregate expectations of market participants.

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Fairly priced securities can have different expected returns from one another.

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Efficiently capturing higher expected returns requires us to use the information contained in security prices rationally.

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# Markets Integrate the Combined Knowledge of All Participants

World Equity Trading in 2015

| | Number of Trades | Dollar Volume |
|---|---|---|
| Daily Average | 98.6 million | $447.3 billion |

The market effectively enables competition among many market participants who voluntarily agree to transact.

This trading aggregates a vast amount of dispersed information and drives it into security prices.

**Markets are constantly aggregating information into prices.**

Source: World Federation of Exchanges. Global electronic order book figures gathered from the 60 WFE member exchanges.

# Conventional Investment Methods Have Low Odds of Success

Fraction of mutual funds that survived and beat their index for 15 years, ending December 31, 2015

**Past performance is no guarantee of future results.** Survivors are funds that were still in existence as of December 31, 2015. Outperformers are survivors that beat their respective benchmarks over the period. See "Data Appendix" page in the Appendix for additional information.

Source: Mutual Fund Landscape, Dimensional Fund Advisors 2016. US-domiciled mutual fund data is from the CRSP Survivor-Bias-Free US Mutual Fund Database, provided by the Center for Research in Security Prices, University of Chicago.

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# How Dimensional's Approach is Different

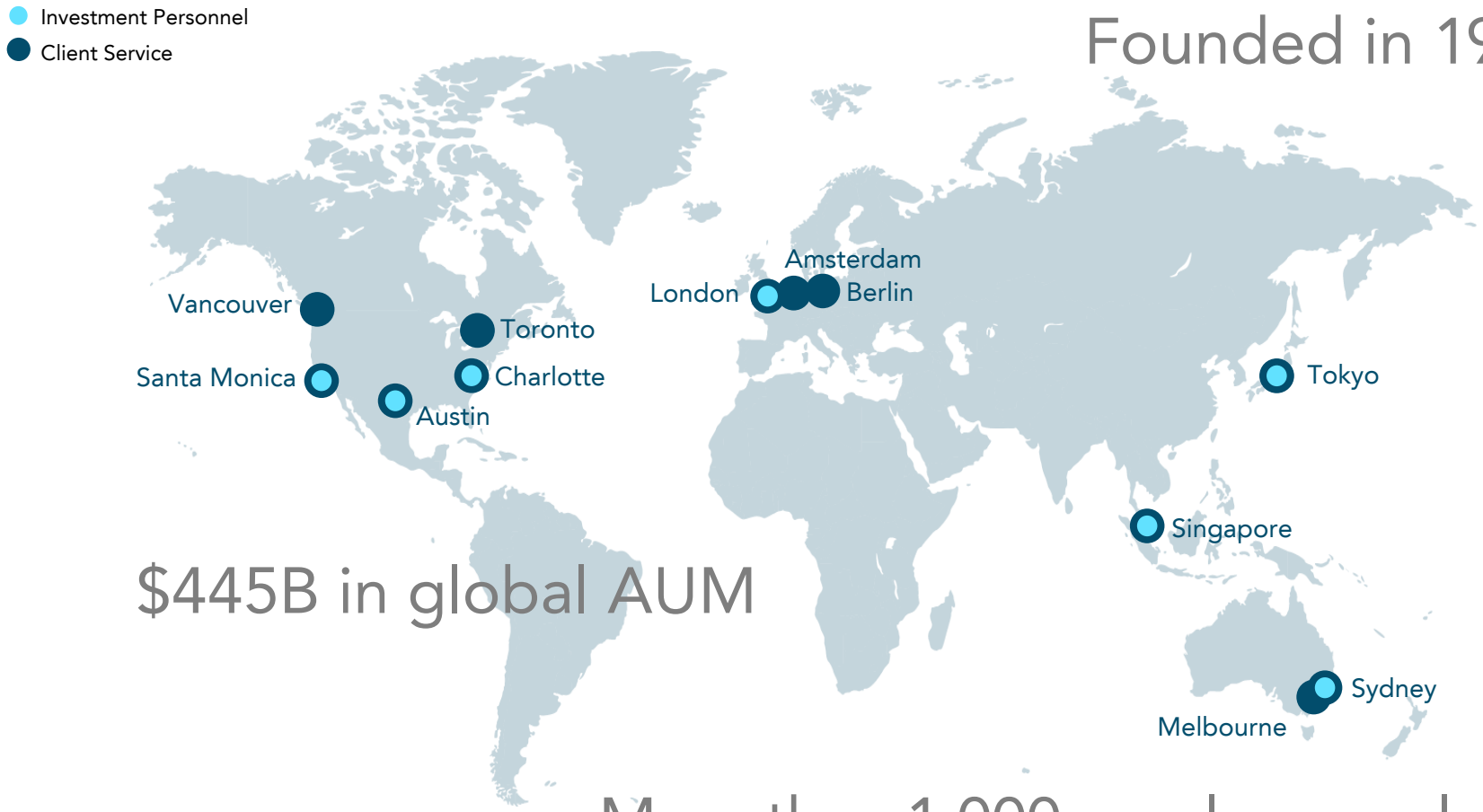
| Conventional Management | Indexing | Dimensional |
| --- | --- | --- |
| Attempts to identify mispricing in securities | Allows commercial index to determine strategy | Gains insights about markets and returns from academic research |
| Relies on forecasting to select "undervalued" securities or time markets | Attempts to match index performance, restricting which securities to hold and when to trade | Structures portfolios along the dimensions of expected returns |
| Generates higher expenses, trading costs, and risks | Prioritizes low tracking error over higher expected returns | Adds value by integrating research, portfolio management, and trading |



#22564-0212

# Firm Overview

# Global Investment Team, One Dynamic Process




Founded in 1981

$445B in global AUM

More than 1,000 employees globally

In USD. Dimensional Fund Advisors LP founded in 1981. Global AUM and number of employees as of September 30, 2016.
Locations with offices operated by Dimensional. "Dimensional" refers to the Dimensional separate but affiliated entities generally, rather than to one particular entity. These entities are Dimensional Fund Advisors LP, Dimensional Fund Advisors Ltd., DFA Australia Limited, Dimensional Fund Advisors Canada ULC, Dimensional Fund Advisors Pte. Ltd., and Dimensional Japan Ltd.

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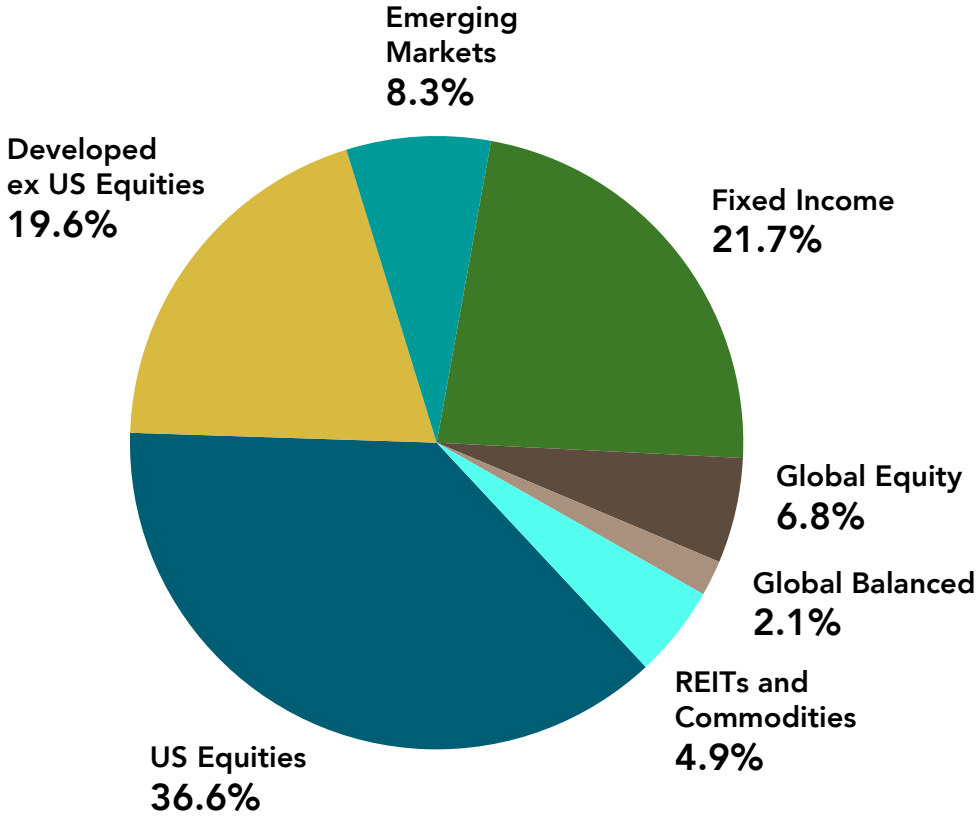
# Financial Advisor Assets

AUM as of September 30, 2016

FINANCIAL ADVISOR SERVICES – $281.9 BILLION AUM




- Dimensional global AUM: $445 billion
- The composition of financial advisor assets reflects a globally diversified approach to investing.
- Dimensional offers a full range of equity and fixed income strategies, as well as specialized solutions, including REIT, commodity, tax-management, and social strategies.

All assets in US dollars. Numbers may not total 100% due to rounding.



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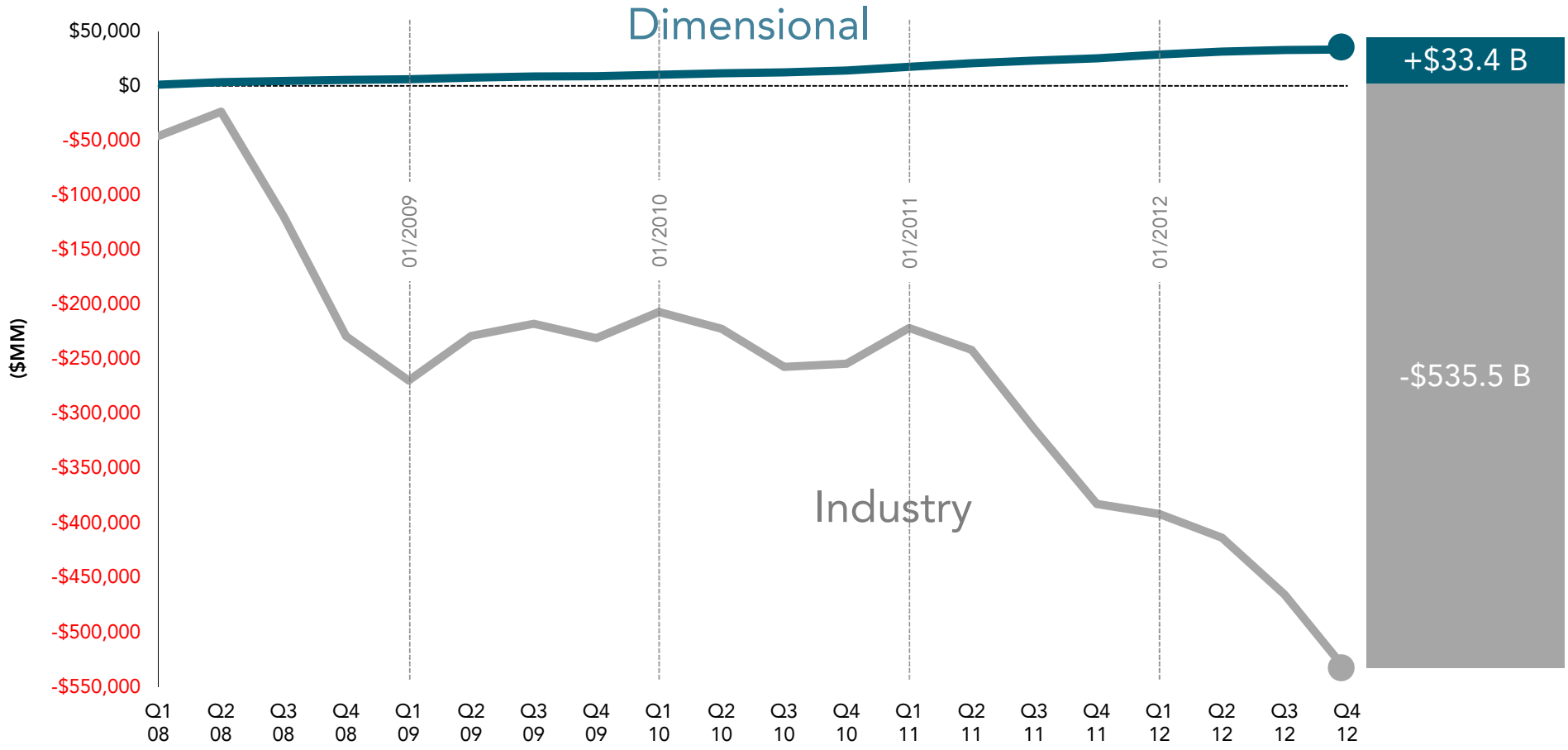
# Equity Mutual Fund Cash Flows in the US

## Quarterly data for illustrative five-year period: 2008–2012

**DIMENSIONAL[1] VS. INDUSTRY[2]**




1. Dimensional's US-domiciled equity mutual funds. Dimensional estimated net flow data provided by Morningstar.
2. Industry net new cash flow data provided by Investment Company Institute © based on the approximately 4,600 US-domiciled equity (domestic and international) mutual funds reported on an aggregate level to the Investment Company Institute ©. This includes information on Dimensional's US-domiciled funds during this period as well.
For illustrative purposes only.

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# Strong Ties to Leading Academics

## Academic Consultants[1]

**Eugene F. Fama,[2,3] Nobel laureate**
Booth School of Business
University of Chicago

**Kenneth R. French[2,3]**
Tuck School of Business
Dartmouth College

**Robert C. Merton,[3] Nobel laureate**
Sloan School of Management
Massachusetts Institute of Technology

**Toshiki Honda**
Graduate School of International
Corporate Strategy
Hitotsubashi University

**Robert Novy-Marx**
Simon Business School
University of Rochester

**Sunil Wahal**
W.P. Carey School of Business
Arizona State University

## Independent Directors of the US Mutual Fund Board[4]

**George M. Constantinides**
Booth School of Business
University of Chicago

**John P. Gould**
Booth School of Business
University of Chicago

**Roger G. Ibbotson**
Yale School of Management
Yale University

**Edward P. Lazear**
Graduate School of Business
Stanford University

**Myron S. Scholes, Nobel laureate**
Graduate School of Business
Stanford University

**Abbie J. Smith**
Booth School of Business
University of Chicago

As of September 30, 2016.
1. Academic consultants have consulting agreements with Dimensional Fund Advisors LP or one of its affiliates.
2. Members of the Board of Directors for Dimensional Fund Advisors LP.
3. Members of Dimensional Fund Advisors LP's Investment Policy Committee.
4. "US Mutual Fund Board" refers to the boards of directors of the DFA Investment Trust Company, DFA Investment Dimensions Group Inc., Dimensional Investment Group Inc., and Dimensional Emerging Markets Value Fund Inc.



#52793-0516

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# Dimensional Evolves as Financial Science Progresses

## Key breakthroughs in finding and capturing dimensions of higher expected returns

**1981 — Company Size**
Dimensional offers investors diversified, cost-efficient access to small companies.

**1983 — Term Structure**
Dimensional applies variable maturity approach to fixed income, using research that shows implied forward interest rates provide information on expected term premiums.

**1992 — Relative Price**
Fama/French research identifies market, size, and price factors as the principal drivers of equity returns.

**2004 — Total Market Solutions**
Advancement in portfolio design provides value-added, efficient, diversified, all-cap equity solutions focused on dimensions of higher expected returns.

**2009 — Credit Spreads**
Dimensional applies variable credit approach to fixed income based on research that shows credit spreads provide information on expected credit premiums.

**2012 — Profitability**
Research identifies profitability as a robust proxy for a new investable dimension of higher expected returns.

Investment risks include loss of principal and fluctuating value. Small cap securities are subject to greater volatility than those in other asset categories.
Profitability is a measure of current profitability, based on information from individual companies' income statements.
Relative price is the price of a security as it compares to another.



#30496-0113

# Working with Dimensional

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# Working With Dimensional

Dimensional helps support key elements of your business

The Goal: An Outstanding Investor Experience



#27278

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# Dimensional Funds

## Equity Strategies

### MARKETWIDE

#### TOTAL MARKET

Emerging Markets Core Equity
Global Equity
International Core Equity
International Vector Equity
Selectively Hedged Global Equity
US Core Equity 1
US Core Equity 2
US Vector Equity
World Core Equity
World ex US Core Equity

#### LARGE CAP

Emerging Markets
Enhanced US Large Company
Large Cap International
US Large Cap Equity
US Large Company

#### SPECIALIZED

Emerging Markets Social Core Equity
International Social Core Equity
International Sustainability Core 1
US Social Core Equity 2
US Sustainability Core 1

#### TAX MANAGEMENT

TA US Core Equity 2
TA World ex US Core Equity
Tax-Managed US Equity

### COMPONENT

#### GLOBAL

World ex US Targeted Value
World ex US Value

#### US

US Large Cap Growth
US Large Cap Value
US Micro Cap
US Small Cap
US Small Cap Growth
US Small Cap Value
US Targeted Value

#### DEVELOPED EX US

International Large Cap Growth
International Small Cap Growth
International Small Cap Value
International Small Company
International Value

#### EMERGING MARKETS

Emerging Markets Small Cap
Emerging Markets Value

#### TAX MANAGEMENT

Tax-Managed International Value
Tax-Managed US Marketwide Value
Tax-Managed US Small Cap
Tax-Managed US Targeted Value

## Fixed Income Strategies

#### ULTRA-SHORT-TERM

One-Year Fixed Income

#### SHORT-TERM

CA Short-Term Municipal Bond
Selectively Hedged Global Fixed Income
Short-Duration Real Return
Short-Term Extended Quality
Short-Term Government
Short-Term Municipal Bond
Two-Year Global Fixed Income

#### INTERMEDIATE OR LONGER

CA Intermediate Municipal Bond
Five-Year Global Fixed Income
Inflation Protected Securities
Intermediate Govt. Fixed Income
Intermediate-Term Extended Quality
Intermediate-Term Municipal Bond
Investment Grade Portfolio
Municipal Bond
Municipal Real Return
NY Municipal Bond
Targeted Credit
World ex-US Govt. Fixed Income
Social Responsible Fixed Income

## Balanced and Additional Strategies

#### BALANCED

Global Allocation 25/75
Global Allocation 60/40

#### ADDITIONAL

Commodity Strategy
Global Real Estate Securities
International Real Estate Securities
Real Estate Securities

## Target Date Retirement Income Strategies

Dimensional Retirement Income Fund
2005 Target Date Retirement Income Fund
2010 Target Date Retirement Income Fund
2015 Target Date Retirement Income Fund
2020 Target Date Retirement Income Fund
2025 Target Date Retirement Income Fund
2030 Target Date Retirement Income Fund
2035 Target Date Retirement Income Fund
2040 Target Date Retirement Income Fund
2045 Target Date Retirement Income Fund
2050 Target Date Retirement Income Fund
2055 Target Date Retirement Income Fund
2060 Target Date Retirement Income Fund

As of June 21, 2016.

# Appendix

# Data Appendix

US-domiciled mutual fund data is from the CRSP Survivor-Bias-Free US Mutual Fund Database, provided by the Center for Research in Security Prices, University of Chicago.

Certain types of equity and fixed income funds were excluded from the performance study. For equities, sector funds and funds with a narrow investment focus, such as real estate and gold, were excluded. Money market funds, municipal bond funds, and asset-backed security funds were excluded from fixed income.

Funds are identified using Lipper fund classification codes and are matched to their respective benchmarks at the beginning of the sample periods. Winner funds are those whose cumulative return over the period exceeded that of their respective benchmark. Loser funds are funds that did not survive the period or whose cumulative return did not exceed their respective benchmark.

Expense ratio ranges: The ranges of expense ratios for equity funds over the one-, five-, and 10-year periods are 0.02% to 4.93%, 0.01% to 4.74%, and 0.02% to 4.44%, respectively. For fixed income funds, ranges over the same periods are 0.02% to 3.27%, 0.01% to 2.53%, and 0.05% to 2.43%, respectively.

Portfolio turnover ranges: Ranges for equity fund turnover over the one-, five-, and 10-year periods are 1% to 1,315%, 1% to 3,452%, and 1% to 3,552%, respectively.

Benchmark data provided by Barclays, MSCI, and Russell. Barclays indices © Barclays 2016. MSCI data © MSCI 2016, all rights reserved. Russell data © Russell Investment Group 1995–2016, all rights reserved.

Benchmark indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

**Mutual fund investment values will fluctuate, and shares, when redeemed, may be worth more or less than original cost. Diversification neither assures a profit nor guarantees against a loss in a declining market. There is no guarantee investment strategies will be successful.**

**Past performance is no guarantee of future results.**